

The Incorporated Accountants' Journal.

THE OFFICIAL ORGAN OF



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Letters for the Editors to be forwarded to them, care of the Secretary, as above. Correspondence, copies of reports and accounts, &c., will be welcomed from the profession.

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PUBLIC APPOINTMENTS.—Two Inspectors of Trustee Savings Banks required. Must be Chartered or Incorporated Accountants between the ages of 26 and 36. Salary £400, rising by £25 triennially to £450. First class travelling expenses and subsistence allowance of 18s. 9d. a night, reducible after five consecutive nights in one place. No superannuation. Whole time. Duty necessitates absence from London. Applications in writing, stating age and particulars of present and former employments, without testimonials in first instance, to be sent to the Trustee Savings Banks' Inspection Committee, 3/4, Clement's Inn, Strand, W.C.2, not later than first post on Monday, December 10th. No canvassing.

Professional Notes.

His Royal Highness the Duke of York, K.G., has been pleased to intimate to the Council of the Society that he will formally open Incorporated Accountants' Hall, Victoria Embankment, London, on Tuesday, February 19th, 1929, at 3 p.m. Her Royal Highness the Duchess of York has signified her intention of accompanying the Duke on the occasion. Further arrangements will be announced in due course.

The administration of the Society will be removed to Incorporated Accountants' Hall early next month, but as workmen will still be engaged on the interior of the building it is suggested that no visits should be made except for the purposes of business, as the Hall will not be generally available until after the formal opening in February.

We are pleased to announce that the President of the Society, Mr. Thomas Keens, who has been indisposed and obliged to enter a nursing home, has recovered his usual state of health and attended the dinner of the Manchester and District Society of Incorporated Accountants on Tuesday, November 20th, and also crossed to Paris on November 23rd to be present at the annual dinner of the English speaking accountants in that city.

The annual dinner of the Manchester and District Society of Incorporated Accountants held at the Midland Hotel, Manchester, on November 20th, had an interesting sequel. The Mayor of Salford, Councillor A. H. Collins, J.P., in the course of responding to the toast of "The Cities of Manchester and Salford," said that "dock labourers, black and white, all sorts of people come in, taking possession of whole neighbourhoods . . . taking up with lasses, girls who might be cleaner than they are, and living in one or two rooms and producing for us a population that is a menace to us." This remark was the subject of comment among Salford dock workers the following day, and at a mid-day meeting attended by 1,500 men, mostly members of the Transport and General Workers' Union, it was decided to send a deputation to the Mayor by way of protest. It was only with difficulty that the official of the Union had persuaded the men to take this course instead of striking there and then. The Mayor refused to retract the statement to which objection was taken, but said that he had made

the mistake of classing everybody living about the docks as dockers, and that he was really referring to casual men who came up the Ship Canal and stayed in Salford for a few weeks. The whole matter has created considerable discussion in the Press in the North of England, some distinguished people agreeing with the Mayor, others characterising his observations as exaggerated.

On the occasion of the visit of the President, Mr. Thomas Keens, and the Parliamentary Secretary, Mr. J. R. W. Alexander, to the sixth annual dinner of the English speaking accountants in Paris, the opportunity was taken of inquiring into the state of the profession in France. It would appear that any person can describe himself as an accountant (expert-comptable) in France, and that there are a number of voluntary societies to which such accountants can belong. On May 22nd, 1927, however, an Act was passed creating the Brevet d'Expert-Comptable, which gives State recognition to the expert-comptable who has the necessary professional experience and has passed the prescribed examinations. As is usual, however, applications were received at the outset from those who did not wish to sit for the examinations but who, having the necessary testimonials, were of French nationality and had five years' good accountancy experience in an advisory capacity. In this way 1,250 persons applied for admittance without examination, and of this number 400 were granted the Brevet. Of the remaining 850 applicants, 500 or 600 cases were to be reconsidered if the applicant passed a modified form of examination, and the remaining 250 or 350 applications were rejected. No further applications for exemption from the examinations are to be considered. It should be pointed out that after ten years the professional experience must be with a State recognised accountant, and that the Brevet is conferred for life, the State, as in the case of other professions in France, having no power of removal for misconduct.

There appears to be no serious discrimination at present against English speaking accountants, who can obtain the Brevet on passing the specified examinations and having had the requisite period of professional experience. This experience may be obtained with an English speaking or other foreign firm of accountants, whilst an accountant in public practice may be considered as undergoing the necessary professional experience if he places himself under the moral and professional patronage of an Expert-Comptable. Moreover, a reduction of the period of five years will be considered in the cases of those who have had long professional

experience. It is understood that a voluntary society is being formed in Paris, membership of which will be restricted to State recognised accountants. This society will take the necessary disciplinary powers to strike a member off the roll for dishonourable conduct.

No surprise will be felt when we announce the formation of another Association of Accountants. This time it is called "The Institute of Company Accountants" with offices apparently at Birmingham. The undated circular issued "By Order of the Council" and signed by two gentlemen who style themselves "Executive Officers," states that the Institute has been founded for the purpose of advancing the interests of accountants engaged in industry, commerce, banking and trade, and the promoters say it is the purpose of the Institute to keep quite distinct "the two professions of Public Accountant and Auditor and Company Accountant," and to confer upon the company accountant a definite professional status. Members will use qualifying letters and a professional designation.

It will not come as a surprise that the qualifying letters F.C.A.I. and A.C.A.I. follow as closely as is deemed expedient the initial letters F.C.A. and A.C.A. designating membership of the Institute of Chartered Accountants in England and Wales. It is obvious that the bait offered is in these initial letters, because the proposed designation "Company Accountant" is a general designation and cannot be made of special significance to any group of persons who organise themselves together.

A reason for the formation of this Institute may be found in the fact that an ever increasing number of Chartered and Incorporated Accountants are obtaining valuable appointments in industry, commerce and finance, but the road that leads to success is both arduous and difficult. "For a limited period only" (the circular declares) "it is proposed to admit accountants or assistant-accountants of companies, banks and corporations without examination, provided that their qualifications and status justify their admission. Immediately the membership of the Institute has become representative, membership will be obtainable by examination qualifications only."

Referring to a remark by the Prime Minister in his speech at Sheffield recently when he said he hoped to live to see some qualifying test for directors

and the relegation of the guinea pig to his proper place—the museum—the City Editor of the *Times* enters a strong protest against the appointment of unqualified directors of public companies “who are frequently aged and retired members of the high professions with no business experience. Sometimes these gentlemen lend their honoured names and titles to company promoters, occasionally for established enterprises, but more often for the exploitation of unproved inventions.” As an instance he cites the case of companies floated for the purpose of dealing with patents which have not been granted, but for which only a provisional specification has been filed. He puts this down to “loose thinking,” which is a charitable view seeing that in many cases these directors are possessed of no qualifications whatever for rendering the company any valuable service or protecting the interests of the shareholders. There is a serious danger of a weakening of public confidence in the management of public companies in this country if the practice is not stopped.

What constitutes the publication or issue of a prospectus? This was the question which came before the House of Lords last month in the case of *Lynde v. Nash*. In the first instance it was held by a jury that certain documents were, on the face of them, an offer of shares to the public, but Mr. Lynde failed to satisfy the jury that the documents were, in fact, issued to the public, and judgment was entered for Mr. Nash, who signed the various documents, and was the person principally concerned in the company. The Court of Appeal (Lord Justice Scrutton dissenting) came to a different conclusion, and entered judgment for Mr. Lynde.

The case then went to the House of Lords, and the Lord Chancellor, in moving that the appeal should be allowed, said he would be loth to hold that in order to bring sect. 81 of the Companies Act into operation it must be proved that the prospectus in question had been published to any defined number of persons or that a plaintiff who had been misled by a prospectus which did not comply with statutory requirements must fail in his action unless he could prove that it had been published to persons other than himself. In his judgment it was sufficient in order to bring sect. 81 into operation that the prospectus should be proved to have been shown to any person as a member of the public and as an invitation to that person to take some of the shares referred to in the prospectus on the terms therein set out; but in his view the documents were never issued to Mr. Lynde as an invitation to him to subscribe. They were

sent to him in order to give him a general idea of the position of the company in case he might think it afforded him a suitable opening for obtaining employment by investing a small amount of his capital. He did not consider that the documents were ever issued as a prospectus at all.

Viscount Sumner in concurring said that the word “issue” in relation to a prospectus did not mean mere delivery. He was anxious not to say anything that would make the way of the share-cavasser less hard than sect. 81 already made it, but to him it was difficult to think of a prospectus being issued without some measure of publicity, however modest. He did not think the term “issue” would be satisfied by a single private communication between friends, even if they were business friends. There must be an intention of inducing a subscription by the person invited to subscribe.

In the case of *Rex v. Commissioners of Income Tax for Edmonton ex parte Thompson* a question came up in the King's Bench Division as to the meaning of sect. 149 of the Income Tax Act, 1918, in relation to the stating of a case for the opinion of the Court. At the hearing before the Commissioners Counsel for the taxpayer expressed his dissatisfaction with the determination of the Commissioners, and it was alleged that the Commissioners then promised to state a case, but there was a conflict of recollection on this point. The provision that governs the matter is contained in sub-sect. 1 (b) which is as follows:—

- (b) Having declared his dissatisfaction, he may, within 21 days after the determination, by notice in writing addressed to their clerk require the Commissioners to state and sign a case for the opinion of the High Court thereon.

No notice was given within the 21 days, and the question the Court had to decide was whether such notice was a condition precedent to the stating of a case, or whether it was merely optional. Stress was laid on the use of the word “may” in the sub-section which we have quoted, and it was argued that if it was in fact necessary to give this written notice the word “shall” would have been used. The Lord Chief Justice, however, pointed out that it would have been impossible to use the word “shall” because then it would have placed an obligation upon the party concerned to proceed with the application for the stating of a case whether he wished to do so or not. It was accordingly held that the notice in writing within 21 days was not discretionary but a condition precedent.

An interesting point was decided by Mr. Justice Swift last month in the case of *Tickner v. Clifton* regarding the liability of a statutory tenant under the Rent Restriction Act, 1920. A yearly tenant died intestate with arrears of rent and no assets. His daughter, who was residing with him at the time of his death, continued to reside in the premises and paid the rent as it became due, but refused to pay the arrears. After a time the landlord refused to accept further rent and commenced proceedings for the recovery of the arrears. It was claimed that the defendant had become an executrix *de son tort* of her father's estate, or an equitable assignee of the tenancy, but his Lordship held that there was no evidence of this. She occupied the premises merely as a statutory tenant as from the date of her father's death, and she was not responsible for what occurred before her statutory tenancy began. Neither under the statute, in common sense or in common justice could she be made responsible for any debts which her father had incurred before his death.

The Court of Appeal have reversed the decision of Mr. Justice Rowlatt in the case of *Morley v. Lawford and Co.* The plaintiffs became guarantors of the British Empire Exhibition at Wembley in the expectation that by so doing they would obtain contracts for asphalt work at the Exhibition and they claimed the amount which they eventually had to pay under the guarantee as an allowable expense for income tax purposes although they did not in fact obtain any orders. Mr. Justice Rowlatt decided that the expense was too remotely connected with the business and that it was not deductible, thereby over-ruling the decision of the Commissioners. It has now been held by the Court of Appeal that the question at issue was one of fact and that the decision of the Commissioners was therefore conclusive. At the same time it was pointed out that this case must not be taken as a precedent and that expenditure which would be allowable in the case of one business might not be allowable in another.

There has for some time past been a good deal of uncertainty as to the allowance for Income Tax purposes of the cost of a new lease, or of its renewal. Generally the cost of the original lease has been disallowed, but the cost of the renewal admitted. We understand, however, that the Inland Revenue have now made a pronouncement upon the matter to the effect that the cost of legal fees and stamps in respect of a lease of business premises is to be disallowed under all circumstances. It is difficult to understand what this attitude of the Inland Revenue is based upon. So far as we are aware there has been no recent case to support it.

The Financial Critic and the Auditor.

THE Incorporated Accountants' Students' Society of London can be congratulated upon the manner in which their committee and officers attract to the service of that Society, and through them to the profession as a whole, some of the ablest exponents of the standards of conduct which must be applied when dealing with all those questions the solution of which is a part of the daily round of professional accountants.

Among those who are good enough from time to time to express views having authority and weight behind them are the financial critics or "City Editors" of the Press. Journalism, like other professions, has experienced a good deal of specialisation, and the financial critics of to-day have achieved a position of independence and public confidence which is hardly surprising having regard to the growth of the system of limited liability and to the fact that most readers of a journal hold one or more investments of which something is known to members of the Stock Exchange, or to those whose business it is to compile from day to day reliable information and statistics.

Mr. C. J. Mill, who presented to the Students' Society "Some Views on Auditors' Certificates" in an address which is fully reported in this issue, has on his shoulders the responsibility of reviewing, in one of our great daily journals, the inception, growth, development and conduct of enterprises, the capital of which is raised by public or private subscription. Mr. Mill availed himself of the opportunity afforded by the acceptance of the invitation given him of reviewing with considerable candour the certificates of auditors on the balance-sheets of public companies. Respecting the particular certificates to which Mr. Mill referred, we do not propose to discuss them in detail in the absence of that knowledge of all the facts which is essential to sound and impartial judgment.

The chief interest in the cases quoted by Mr. Mill was in regard to the value of the fixed assets, because in all the examples given by him the loss was in respect of these assets (added to which he mentioned investments in associated and subsidiary companies), and he went on to suggest that the time was coming when fixed assets might have to be valued by experts from time to time. In fact, he said, "I think that they should be valued probably once every five years." Here Mr. Mill has come up against the real difficulty, as was pointed out to him at the meeting, and the nature of the difficulty has been carefully considered by the Company Law Amendment Committee of the Board of Trade.

"We are of opinion," said the Committee, "that in general, the law as it stands in regard to the powers and duties of auditors is satisfactory. It would be a mistake, in our view, to attempt further to define these by statute having regard to the multifarious circumstances which in practice arise. It appears to us far better that the law should retain its elasticity than that an attempt should be made to confine it within the bounds of a rigid formula. In a previous paragraph in the Report the Committee recommended that every balance-sheet of a company should contain certain details, and should disclose how the value of the fixed assets has been arrived at. This has been given effect to in sect. 40 of the Companies Act of 1928, which received the Royal Assent as recently as August 3rd last. In view of Mr. Mill's criticisms we would also point out the provision that in the balance-sheet preliminary expenses (as far as they are not written off) must be stated separately; also any expenses incurred in connection with any issue of share capital or debentures; the amount of goodwill and of any patents and trade marks must also be shown. Then there are regulations as to holding companies and their subsidiaries, and as to the shareholdings of the former and the indebtedness of the latter, all of which must be clearly shown in the balance-sheet of the holding company. When Mr. Mill talks of the disparity as between the value of plant and machinery as a going concern and of its break-up value, one is tempted to ask him, in the case of a new enterprise, for how long a period an investment in a factory is to be regarded alternatively from its value as a going concern and from its break-up value, because within the first few years of its establishment it cannot earn satisfactory dividends. Were the break-up value to be applied from the beginning some of the greatest enterprises of the country could never have been brought to fruition. Fixed assets cannot be acquired at break-up value, and very few companies could afford to hold up the payment of dividends until those assets had been written down to that figure.

But we see even a greater difficulty in Mr. Mill's views upon goodwill as a balance-sheet item. The item of goodwill has, in Mr. Mill's opinion, no real place in the balance-sheet. The question was put to him at the meeting as to what should be done in the case of a company which had a capital of £2,000,000, half of which was invested in the purchase of goodwill. Mr. Mill did not clear up the point as, he said, he had not really that idea in mind at all, and referred to an issuing house which made it a practice of never including anything in a balance-sheet for goodwill, but expressed the value of it in the premium on shares offered. We do not see that

this meets the difficulty in any way. Auditors do not compile the balance-sheets which come before them, but they have to deal with facts and figures as they stand, and this brings us to the real crux of the matter.

Concerns are being offered to the public for investment under limited liability in ever increasing numbers. The prospectuses have to comply with the provisions of the Companies Act, but when the Act of 1928 is consolidated into a new Act, which we hope will be in the early part of 1929, promoters will find that the conditions concerning the birth of new companies will be more stringent. A number of these companies are badly conceived, expensively brought forth, and bear no chance of a healthy and prosperous career. The physicians of commerce, as professional accountants are sometimes called, cannot help them through their infancy, and they are only able eventually to give them a certificate for decent interment unless a coroner, in the guise of an Official Receiver, deems an inquest necessary into the cause of death.

Enterprises under the Companies Acts do not vary from other business ventures. If too much is asked of them in the first place they have no chance of success in a competitive age. If potential shareholders subscribe their money without regard to capital values they have only themselves to thank when the inevitable slump comes. Here surely is work for the financial critic. His advent on the scene must be a year in advance of the auditor. To prevent a company being born in such a fashion as will lead to ill health is after all a greater service to the community than when all the mischief is done, for an auditor to point out to the shareholders that their money is lost and to the public that the concern is of no account. The financial critic calls upon the auditor to have the zeal of the crusader, and to go beyond the requirements of the law in carrying out his duties. The auditor is justified in asking the financial critic to do his utmost to prevent the necessity for the crusade.

The New Companies Act.

II.—Share Capital.

SECTS. 18 and 37 of the new Act call for consideration in some detail. Sect. 18 confers upon companies limited by shares "power to issue redeemable preference shares," and its effect is to place such companies in the position of being able to reduce their capital without requiring to secure the sanction of the Court. To that extent the section represents

a substantive legal reform. Hitherto it has been open only to companies incorporated by special Act of Parliament to secure the privilege of redeeming preference shares. What the section does is to bring the law into harmony with the laws governing companies which are to be found in many other legal systems, notably those of Canada and of the United States of America.

It is open to a company under this section of the Act to regulate by its Articles the mode and terms of redemption—sect. 18 (3)—subject to the four statutory conditions imposed by sub-sect. (1). If the company is not authorised by its Articles to issue such shares, there would appear to be nothing to prevent its altering them (subject to its Memorandum of Association) so as to secure the necessary authorisation; it is not, however, clear from the phraseology of the section whether existing preference shares are within its scope, or whether its provisions contemplate exclusively future issues.

The Articles may authorise the issue of the shares, redeemable either at par or at a premium, and the company may oblige itself or merely give itself the option to redeem, on or before a specified date. This date, together with a statement showing what part of the company's issued capital consists of such shares, is to be set forth in every balance-sheet of the company subsequent to the issue, non-compliance entailing liability to a fine up to £100. The liability to such fine falls not only upon the company but also upon "every director, manager, secretary or other officer of the company" who wilfully permits the default, and auditors will require to note their responsibility in this behalf. Where shares are redeemed out of profits which would otherwise be available for dividend, a "capital redemption reserve fund" must be raised. Where the shares are redeemed out of the proceeds of a fresh issue, and not out of profits, it is out of profits, nevertheless, that provision must be made for any premium payable.

Attention should also be paid to the provisions governing the paying up of unissued shares and their distribution to members of the company as fully paid bonus shares.

The effect of sect. 18 (4) is to provide convenient machinery for substituting new share capital at a lower rate of interest for old capital obtained at a higher rate. Notice of redemption, specifying the shares redeemed, must be filed with the Registrar of Companies within one month, subject to a penalty of £5 for every day during which the default continues (sect. 14).

Sect. 37 confers upon companies "power to issue shares at a discount." Here again, as in the case

of the reform effected by sect. 18, the enactment is not altogether an innovation, for in the past there has been nothing to prevent a company achieving the object now legalised by this section, by the simple expedient of taking power in its Articles to pay a commission for subscribing or agreeing to subscribe for shares (now limited by sect. 38 of the new Act to a maximum of 10 per cent. of the issue price, which section amends in several matters sect. 89 of the 1908 Act). A similar cloak—not always offering a strikingly effective disguise—was employed by issuing shares as fully paid up in consideration of goodwill or patents, or the like—intangible assets upon which it is scarcely easy to place a precise valuation. The law in the past has indeed been in its theory singularly illogical, with the consequence that inconsistencies have abounded in practice. Thus, loan capital has systematically been issued at a discount by Government, municipal and local authorities—and their example has been frequently followed by commercial enterprises—in their issues of debentures, debenture stock, notes, and the like. Whilst the issue of shares at a discount has been prohibited, no such restriction has been imposed upon the issue of debentures.

For the raising of additional working capital to cope with the difficulties induced by a temporary set-back, a normally sound company may find in this new statutory power a simple and inexpensive instrument to hand. Why the company should be restricted in the issue of shares at a discount to shares of a class already issued is not immediately apparent (sub-sect. (1)). It should be noted, too, that whilst it is provided by sub-sect. (1) (b) that the resolution passed in general meeting of the company authorising the issue of the shares must specify the maximum rate of discount at which they are to be issued, no statutory maximum rate has been fixed, as was advocated in some quarters during the progress of the Bill.

The discount allowed, in so far as it has not been written off, must be shown in every balance-sheet subsequent to the issue; it must also be disclosed in the prospectus relating to the issue, and in the annual return and summary required to be furnished under sect. 26 of the 1908 Act (sub-sect. (3)).

Other sections of the new Act to which accountants and auditors will desire to give some special attention are as follows:—

Sect. 8. This section, which makes it unlawful for a company to register a transfer of shares or debentures in the absence of the delivery to it of a proper instrument of transfer, should serve to stamp out the growing practice of avoiding the payment of stamp duty. The power to register a holder whose

holding has been transmitted to him by operation of law is not interfered with, however, and the provisions of sub-sect. (2) are so framed as to assist the speedy administration of an estate where the assets consist of holdings in a number of companies.

Sect. 50. This section, covering schemes for amalgamation, regulates the rights of a transferee company to acquire the shares of a dissenting shareholder, where the scheme has the approval of the holders of not less than nine-tenths in value of the shares or class of shares affected. A dissentient shareholder is given the right to make application to the Court for an order directing that his holding shall not be acquired upon the terms which have been approved by the majority. The section covers also a scheme approved before the commencement of the Act, though subject to the proviso that the Court may by order direct the terms upon which the holding of a dissenting shareholder is to be acquired. The transferor company is to receive the sums paid by the transferee company on trust for the holders of the shares for which such sums are paid, which sums are to be paid by the former into a separate bank account.

Sects. 53 and 54 amend sect. 120 of the 1908 Act; the former gives an extended meaning to the term "arrangement" used in the 1908 Act so as to include a re-organisation of the share capital of a company by consolidation of or division into different classes of shares. Sect. 54 deals with cases where the compromise or arrangement proposed is shown to be in connection with a scheme for reconstruction or amalgamation, which processes are to be facilitated by the provisions of the section. The Court is therein empowered either by the order sanctioning the arrangement or by a subsequent order to make provision for a number of matters detailed under six main heads (sub-sect. (1)). Sub-sect. (5) provides that the expression "company" is to be taken to cover only companies which are such within the meaning of the 1908 Act.

Sect. 19 deals with reduction of share capital. Sub-sect. (1) replaces sect. 48 of the 1908 Act (dealing with the addition of the words "and reduced" to the name of the company); sub-sect. (2) authorises the Court to direct a restricted application of sect. 49 of the 1908 Act (dealing with objections by creditors in cases of reduction); whilst sub-sect. (3) repeals sect. 40 of the 1908 Act (authorising the return to the shareholders of accumulated undivided profits in reduction of paid-up share capital). With regard to the last-mentioned, the effect of sect. 18 of the new Act will be borne in mind.

Sect. 17 empowers dissentient holders of not less in the aggregate than 15 per cent. of the issued

shares of a particular class to apply to the Court, in proper cases, for a speedy review and cancellation of a variation of the rights attaching to that class, proposed to be made in pursuance of the provisions contained in the Memorandum or Articles.

Sect. 42 amends sect. 92 of the 1908 Act dealing with the limitation of time for the issue of certificates of shares and debenture stock and debentures, so as to meet the legitimate complaints, which have been somewhat numerous in recent years, regarding the delay which is often allowed to occur between the lodging of a transfer and the issue of a certificate.

Rating Relief

THE Local Government Bill introduced into Parliament last month, which deals *inter alia* with Rating Relief, is a complicated document, and it is impossible in a short space to convey even its general effect. The scope of the rating relief provisions, however, may be briefly indicated. As from October 1st, 1929, agricultural land and buildings are to be entirely exempt from rates, and industrial and freight transport properties are to be relieved to the extent of 75 per cent. Although the rating relief commences on October 1st, 1929, the scheme generally does not come into operation until April 1st, 1930. All that happens for the six months from October 1st, 1929, to March 31st, 1930, is that the Government undertakes to refund to each of the rating authorities its loss of income by reason of the rating reduction. No new basis of apportionment is introduced and no additional contribution is made by the Government for that period. The first quinquennium commences on April 1st, 1930, when the additional contribution takes effect and the rules for weighted population referred to below come partially into force. In reading the Bill it is necessary to bear in mind that "the appointed day" means October 1st, 1929, for the purpose of Part V (which deals with rating relief), and April 1st, 1930, for all the other provisions of the Bill. The distribution of the relief is to be arrived at by allocation to areas (counties and county boroughs) and the basis of apportionment is to be population, but the actual population is to be "weighted" in order to give effect to other considerations. In order, however, not to produce too sudden a change in the existing revenues of local authorities, it is proposed that the General Exchequer Contribution shall for the first quinquennium be allocated only to the extent of approximately one-third according to weighted population, the remaining two-thirds being allocated

in proportion to the revenues to be withdrawn. On each revision of the grant, one-third of the latter share is to be transferred to the basis of weighted population until the full scheme comes into operation in 1945.

The rules for determining the weighted population provide that the basic factor of the calculation, viz, the estimated population of each county or county borough in the standard year (or after the first quinquennium the year prior to the beginning of each quinquennium), shall be increased with reference to four further factors, viz:—

1. The proportion of children under five years of age to the population. (The population is increased in the proportion by which the number of children under five years of age per 1,000 population exceeds 50.)

2. The rateable value per head. (The population is increased in proportion to the extent to which the estimated rateable value is below £10 per head.)

3. The proportion of unemployed insured men to the population. (The population is increased by ten times the percentage of unemployed insured men in excess of 1.5 per cent. of the total population, *e.g.*, if the percentage were 3.5 the increase would be $2 \times 10 = 20$ per cent.)

4. The population per mile of public roads. (Where the population is below 100 per mile it is weighted by the percentage deficiency below 200. Where it is 100 per mile or over, it is weighted by a percentage equal to the proportion which 50 bears to the population per mile.)

Factors 1 and 2 are calculated on the actual population, but factors 3 and 4 are calculated on the population as increased by numbers 1 and 2. The basis of relief in the case of the metropolitan boroughs is somewhat different from that of the rest of the country, as they will not be responsible for education nor poor law service. The modifications are set out in Clauses 80, 81 and 82 of the Bill.

The total amount of the General Exchequer contribution in each year of the first quinquennium will amount approximately to £45,000,000, made up as follows:—

| | |
|--|--------------------|
| (1) The equivalent of the estimated total losses on account of rates | £24,000,000 |
| (2) The equivalent of the estimated losses on account of discontinued grants | 16,000,000 |
| (3) Additional amount | 5,000,000 |
| Total | £45,000,000 |

For the first year of the first quinquennium the annual grants under the scheme are estimated as follows:—

| | |
|---|--------------------|
| General Exchequer Contribution | £45,000,000 |
| Additional Exchequer Grants | 605,000 |
| Supplementary Exchequer Grants | 1,725,000 |
| | <u>£47,330,000</u> |
| Deducting the estimated total of discontinued grants to be merged in the new grants | 16,000,000 |
| | <u>£31,330,000</u> |

The supplementary grants will be reduced by 1-15th (£115,000) each year. The Metropolitan Boroughs are to receive their grants from the London County Council in connection with the levying of the rates for general county purposes.

The City of London and Metropolitan Boroughs are not to be treated as county districts outside London are treated under Clause 78, but each of them is, for the purpose of calculating its share of county apportionment, to be treated as if it were a county borough entitled to receive the grant appropriate thereto, having regard to its council's loss of rates and grants and its weighted population, subject, however, to two modifications:—

1. The money factor which is applied to the weighted population is to be taken at one-third only of the money factor applicable under Clause 69 (2) (b) in the case of county boroughs.

2. The weighted population is not, as in the case of county boroughs, to be increased by the unemployment factor.

The reason for this difference in treatment (as explained above), is that the Metropolitan boroughs are not responsible for education and poor law service. The additional grants in the case of London will be calculated in precisely the same way as in the case of the counties.

The rating relief provisions of the Bill do not extend to Scotland or Northern Ireland.

THE NATIONAL HEALTH INSURANCE ACT, 1928.

ALTHOUGH National Health Insurance dates from the Act of 1911 and affects millions of persons, it is doubtful if real knowledge exists outside a limited circle as to its provisions and derivable benefits. In the practical working of the Insurance scheme much knowledge has been gained by the officials of the societies as well as by those of the Government, and the recent Royal Commission obtained some very useful information as to modern conditions. Based on some

of the latter's recommendations and discussion with the Consultative Council (representatives of societies and trade unions), an Act was passed last session which removed many anomalies and inconsistencies, and had an easy Parliamentary passage. Considering the relationship of health insurance with qualifications under Widows, Orphans, and Old Age Contributory Pensions Act, 1925 (by which pensions are granted at 65 years of age), it behoves everyone to obtain some idea as to the provisions of this new Act. To explain these as simply as possible, a short history from the 1911 Act is necessary. Administration is in the hands of approved societies; most friendly societies and trade unions have a health insurance section, and some industrial assurance companies likewise. After a certain number of contributions have been paid, members are entitled to maternity, medical, sickness and disablement benefit, at not less than certain weekly rates provided for in the Consolidating Act of 1924. But the management of these societies is usually so economical that the insured person invariably has additional benefits to those provided by Statute. A periodical valuation is held, and out of the disposable surplus a society can select one or more additional benefits subject to Governmental sanction. A new schedule is provided in this Act, particulars of which are appended hereto. With long periods of unemployment intervening, it became very difficult for many persons to show sufficient contributions paid to keep in continuous insurance, so by the National Health (Prolongation of Insurance) Act, 1921, persons if genuinely unemployed could be kept in insurance, with limited benefits, until such time as further contributions qualified them for full benefits. If, moreover, a society had selected as an additional benefit—"power of remission of all or a portion of arrears penalty"—such society's members were continually available for full benefits. It was found in practice that much dissatisfaction resulted, as some members thus received full benefits with very small or no payment of contributions, while in other societies many members received limited benefits and continuance of insurance.

Continuance of Insurance.—Under the new Act the position is clarified, the discretionary power of the society is removed, the 1921 Act is abolished, and a period of free insurance, with full benefits for the genuinely unemployed, is made a statutory right and applies to all insured persons, instead of to some members only. This alteration is contained in the following section:—

"Sect. 1 (1) Where an insured person ceases to be employed he shall until June 30th or December 31st, whichever next precedes the expiration of a period of two years from the end of the contribution week in which he ceases to be employed, be treated for all purposes as if he were an employed contributor"

The dates mentioned are, of course, the terminating dates on the persons half-yearly cards. Under this section the average period of free insurance works out at one year nine months for each person if genuinely unemployed at full benefits. If registered at an employment exchange as available for work but unable to obtain employment, a proof to the society of unemployment is obtained by the person getting his health

insurance card stamped (from July, 1928), at such exchange. If not so registered each society will issue its own instructions, but the Act provides under the Second Schedule that a person can be deemed to fulfil the above conditions as if he had been so registered, by giving other proof. In the case of a person who becomes unemployed through sickness the said free insurance period will not commence to run until the termination of such sickness.

Those proving genuine unemployment, under sect. 1 (1) will also under sect. 1 (3) receive an additional period of free insurance of twelve months, but sickness and disablement benefit will be reduced . . . but such reduction shall not exceed one half of the benefit.

It will be seen therefore that continuance of insurance remains for two-and-three-quarters years, which should remove much worry from the mind of the genuinely unemployed person, considering that he is thus in qualification for the Old Age Pension Act at 65 and for a pension for his widow if he dies.

During the Committee Stage the Right Hon. Neville Chamberlain (the Minister of Health in charge of the Bill) also made it plain that intermittent work prolonged the period. He said: "Do Hon. Members realise that not only has the insured person under this section got two-and-three-quarters years free insurance, but that if . . . he is ill at the end of that time the period is further prolonged until he is well. In addition to all that, if at any time during the two-and-three-quarters years he can get a week's work he starts all over again."

This Act comes into force on January 1st, 1929, but, as explained above, for proof of unemployment certain regulations start from July, 1928.

Arrears.—Prior to this Act, a reduction of benefit took place in every case where an insured person was in arrear to the extent of five or more contributions, but by payment of arrears penalty before November 30th each year full benefits were retained. Under sect. 1 (5) of the new Act, regulations will be made to abolish all arrears penalties where genuine unemployment is proved in the manner stated previously. Thus every member who has 50 contributions a year to his credit, made up of (1) . . . weeks of employment (for which contributions have been paid), (2) . . . weeks of genuine unemployment, and (3) . . . weeks of sickness (if any), will be entitled to full benefits.

To meet cost of concessions a sum of £500,000 a year is earmarked for the various societies. This sum will be provided from surpluses in "stamp sale account." These sums arise in part from contributions paid by persons who may come within the insurance scheme for short periods and/or neglect to surrender their stamped cards—a case of the foolish helping the sensible.

Persons of 60 and over.—Sect. 1 (3) (5) provides that if a person to whom the two-and-three-quarters years free insurance applies was at the date he ceased employment 60 or over, and is available for work but unable to obtain employment, he shall have his insurance continued year by year even after the two-and-three-quarters years, but during this further period he will not be entitled to sickness or

disablement benefit. To secure this, however, he must prove that he had been continuously insured for at least ten years before ceasing employment.

This section prevents the hardship of a person of 60 or over becoming unemployed and losing his title to old age pension at 65. A person on attaining the age of 65, if then insured under the new Act, continues to be an insured person throughout his life, but a person who is not insured on attaining the age of 65 shall not be capable of becoming insured.

Voluntary Contributors.—A voluntary contributor must pay ordinarily 45 contributions, or be deemed under this Act to have paid this total. Failing to pay, or to make up to such number within a prescribed period, he shall cease to pay contributions as a voluntary contributor. But where a voluntary contributor has been insured continuously for ten years (men at 60, women at 55), 26 contributions shall be substituted for 45 as above. It should be borne in mind, however, that sect. 1 (1) (2) (one-and-three-quarters years free insurance subject to reduction of benefits on enactments relating to arrears) applies to voluntary contributors, but not the additional twelve months.

Deposit Contributors.—Sect. 11 makes this section permanent. Every person, however, should endeavour to join an approved society, as under this section contributions are carried to individual accounts, but benefits cease as soon as the balance to the contributor's credit is exhausted.

If, however, by reason of the state of his or her health a person is unable to join an approved society, this section provides that the contributor shall be admitted to a special section called the Deposit Contributors' Insurance Section, and become entitled to the ordinary benefits as if a member of an approved society.

Married Women.—Under the 1924 Act insured women who gave up work on marriage, only received reduced benefits for six weeks, during a period of twelve months. By sect. 12 sickness benefit will be paid at full rates during the same period. Also for first confinement, within two years of marriage, maternity benefit will be paid at full rate—irrespective of arrears.

If, however, the act of ceasing employment was through genuine unemployment and being available for work but unable to obtain same, a married woman will be treated for all purposes as any other insured person and entitled to the concessions of sect. 1.

Minor Amendments.—Sect. 20 brings within the scope of compulsory insurance certain workers not technically employed under a contract of service for wages, but paid at piece rates. Tree fellers and hay cutters are specifically mentioned. Share fishermen, as well as crews of barges and small sailing vessels, are also brought into insurance. Power is taken to exclude persons by special orders in cases where insurance is found inappropriate.

By sect. 2, which deals with inmates of hospitals, discretionary power is given to the society to pay benefit, either by weekly sums of not less than 10s. or by lump sum whichever way the society may determine. Payment to be made either to the insured person or to his dependants, and either to be made while an inmate or on discharge.

First Schedule.—This schedule sets out the additional benefits allowable out of disposable surplus which may be summarised briefly as follows:—1, Increase of sickness or disablement benefit; 2, Payment of sickness benefit from first day; 3, Increase of maternity benefit; 4, Allowances during convalescence; 5, Payment to members in want and distress; 6, Payments to members not allowed to work on account of infection; 7, Repayment of contributions; 8, Payment of special medical and surgical advice; 9, Payment of whole or part cost of dental treatment; 10, Payments to special hospitals and travelling expenses of members to such hospitals; 11, Maintenance and treatment in convalescent homes and travelling expenses incurred; 12, Provision of premises as convalescent homes and the maintenance of such; 13, Cost of medical and surgical appliances additional to ordinary medical benefit; 14, Ophthalmic treatment and the provision of optical appliances; 15, Cost of provision of nurses for members; 16, Payments to charitable institutions, dispensaries, &c., in respect of any treatment for the prevention or cure of disease; 17, Benefits similar to above as may be prescribed.

The most popular benefits selected by approved societies are or will be Nos. 1, 3, 9, 13, 14, 15.

Society of Incorporated Accountants and Auditors.

COUNCIL MEETING.

A meeting of the Council was held on Thursday, November 29th, when there were present:—Mr. Thomas Keens (President) in the chair; Mr. Henry Morgan (Vice-President); Mr. William Bateson (Blackpool), Mr. H. J. Burgess (London), Mr. D. E. Campbell (Wolverhampton), Mr. W. Claridge, M.A., J.P. (Bradford), Mr. E. Cassleton Elliott (London), Mr. Walter Holman (London), Mr. E. T. Kerr (Birmingham), Sir James Martin, J.P. (London), Mr. C. Hewetson Nelson, J.P. (Liverpool), Mr. James Paterson (Greenock), Mr. W. H. Payne (London), Mr. W. Paynter (London), Mr. A. E. Piggott (Manchester), Mr. G. S. Pitt (London), Mr. J. Stewart Seggie (Edinburgh), Mr. Alan Standing (Liverpool), Mr. Percy Toothill (Sheffield), Mr. A. H. Walkey (Dublin), Mr. F. Walsley, J.P. (Manchester), Mr. R. T. Warwick (London), Mr. E. W. C. Whittaker, J.P. (Southampton), Mr. W. McIntosh Whyte (London), Mr. A. E. Woodington (London), Mr. A. A. Garrett (Secretary), and Mr. J. R. W. Alexander (Parliamentary Secretary).

Apologies for non-attendance were received from Sir Charles Wilson, M.P., LL.D. (Leeds), Mr. Arthur Collins (London), and Mr. W. Allison Davies (Preston).

INCORPORATED ACCOUNTANTS' HALL.

It was reported that the purchase of Incorporated Accountants' Hall had been completed, and that the restoration work and alterations were in progress. The Council sealed the Trust Deed securing the issue of Hall Debentures.

OPENING OF INCORPORATED ACCOUNTANTS' HALL.

A report was received that H.R.H. The Duke of York, who would be accompanied by H.R.H. The Duchess of York, had consented to open Incorporated Accountants' Hall on the afternoon of February 19th, 1929. It was resolved that the following functions also be arranged:—

Dinner at the Connaught Rooms, February 19th, 1929.

At Homes by the President and Council at the Hall on

February 20th, 21st and 22nd from 4 to 6 p.m.

Dance at the Hall on February 20th, 1929.

PORTRAITS OF PAST PRESIDENTS.

The Council resolved that the portraits of the President, Mr. Thomas Keens, and the Past Presidents be executed to be hung in the Hall.

BYE-LAWS.

The following addition to the Bye-Laws was made:—

"Subject as hereinafter in this Bye-Law mentioned a Candidate in England, Wales, Scotland or Ireland, within three months after passing the Preliminary Examination or after obtaining exemption from the Preliminary Examination under the provisions of Bye-Law 5, shall become a member of the Students' Section of a Branch or District Society of the Society or a member of an Incorporated Accountants' Students' Society. The Examination and Membership Committee of the Council may in exceptional circumstances exempt a candidate from the operation of this Bye-Law. A Candidate submitting an application to sit for the Intermediate Examination shall forward with such application a certificate by the Secretary of such Branch, District or Students' Society of compliance with this Bye-Law."

CERTIFICATES IN PROSPECTUSES.

The following report from the Disciplinary Committee of the Council was adopted:—

The Disciplinary Committee of the Council are of the opinion that Incorporated Accountants should not certify or express an opinion on any estimates of future profits which are or are likely to be published.

THE ACCOUNTANCY PROFESSION IN FRANCE.

A report was received of the visit of the President and Parliamentary Secretary to a dinner of the English-speaking accountants in Paris, on November 23rd, 1928. Information was also given to the Council as to certain movements in regard to the accountancy profession in France.

PRESENTATION TO MR. ALEXANDER A. GARRETT.

The President on behalf of the Council and Officers of the Society presented a canteen of cutlery to Mr. Garrett on the occasion of his marriage, together with the cordial good wishes of the subscribers.

Changes and Removals.

Messrs. Halsey & George, Incorporated Accountants, have removed to Rennie's Buildings, 394, Smith Street, Durban, South Africa.

The Sydney and Dubbo practices (New South Wales) of Mr. F. L. Keyworth and Mr. R. H. Modlin, F.C.A., have been amalgamated, and they will practise at Sydney and Dubbo as Keyworth, Modlin & Clerk. Mr. A. I. M. Clerk, Incorporated Accountant, has joined the new firm as a partner.

Messrs. Larking & Larking and Mr. Walter F. Whiting announce that they have purchased the share of Mr. Frank Green in Messrs. Whiting, Green & Co., of Wisbech, and that the two practices in that district will be amalgamated. The new firm will practise as Larking, Larking & Whiting, at Wisbech, March and Bury St. Edmunds, with Mr. Walter F. Whiting as resident partner.

Mr. Paul Lazzari, Incorporated Accountant, has commenced public practice at Midland Bank Chambers, 42, Grey Street, Newcastle-upon-Tyne.

Messrs. W. T. Rowlinson & Co., Incorporated Accountants, announce that the partnership has been dissolved, as Mr. H. J. Cox, A.S.A.A., has taken up a commercial appointment. Mr. W. T. Rowlinson, F.S.A.A., will continue the practice at Cardiff Chambers, 4, Cardiff Road, Luton.

Mr. R. Verity, Incorporated Accountant, has commenced public practice at 1, Winchester Chambers, 135, High Street, Hull.

Messrs. A. E. Webster & Co., Incorporated Accountants, have removed to 22, Martin Lane, Cannon Street, London, E.C. 4.

Mr. W. Woods, Incorporated Accountant, has commenced public practice at 40, Victoria Buildings, Deansgate, Manchester.

SIR JOSIAH STAMP ON RAILWAYS.

THE versatility of Sir Josiah Stamp is a thing to be marvelled at. In 1916 he gave us his great work "British Incomes and Property"; in 1921, "The Fundamental Principles of Taxation"; a year later, "Wealth and Taxable Capacity"; in 1924, "Current Problems in Finance and Government"; in 1926, "The Christian Ethic as an Economic Factor"; and now (in collaboration with Mr. W. V. Wood, the Controller of Costs and Statistics of the London, Midland and Scottish Railway) we have a delightfully interesting and highly informative book on "Railways." The volume is issued in the Home University Library series, and is produced in the well-known manner characteristic of the series. We have in this volume a complete survey of the subject from the early origins when the motive power was the horse, covering the whole gamut of the system, and concluding with a chapter on railway accounting.

Among the statutory restrictions to which a railway company must conform is the almost forgotten one that it must not run trains to convey parties to a prize fight.

It is salutary to be reminded, at a time when so many forms of industry are in receipt of State-aid in one form or another, that our British railways were built without State-aid, and in the face of strenuous opposition and at enormous cost.

How different this was from the manner in which the United States and Canada encouraged the creation and extension of the railroad industry with gifts of land, loans, exemptions from taxation, and other forms of assistance, makes very thought-provoking reading.

We learn how the standard gauge was fixed by the width of colliery wagons, and later made statutory at 4 feet 8½ inches.

It is symptomatic of our cousins in the Emerald Isle that when they commenced the line from Dublin to Belfast, the former started with a gauge of 5 feet 2 inches, while the latter adopted 6 feet 2 inches.

The total outlay on capital accounts of all British railways is given as follows:—

| | |
|--|----------------|
| Lines, Stations, Bridges, Tunnels, &c. | £900 millions. |
| Locomotives, Carriages, &c. | 180 „ |
| Docks, Steamers, Canals, Hotels, &c. | 120 „ |

Giving a total Capital Expenditure of .. £1,200 millions.

Towards this huge total the public have subscribed £1,150 millions, and the balance has been temporarily provided out of reserves. On the revenue side the normal receipts are estimated at £210 millions, and the working expenses at £160 millions, the balance being equivalent to 4.6 per cent. of the capital receipts.

Motorists who have often found it rough going in passing over railway bridges may learn the reason upon referring to this book, for not only have the railway companies to build the bridges, but Parliament has decreed that they shall maintain the surface of the road on the bridge and its embanked approaches.

On page 86 the vexed question of the value of the 20-ton wagon as against the 12-ton wagon is brought under

consideration, and the economy of the larger wagon is clearly demonstrated.

It is certainly very alarming to learn that "owing to the length of time waiting for orders, lying under load waiting for clearance, and being sorted and worked back to the owning colliery," coal wagons hardly make two loaded trips a month.

The view is expressed that there is a "substantial" margin in favour of coal fuel as compared with oil fuel for locomotives.

The total issued capital of the four large companies is stated at £1,070 millions, made up as follows:—

| | |
|--------------------------------------|----------------|
| Southern | £150 millions. |
| Great Western | £147 .. |
| London and North Eastern | £367 .. |
| London, Midland and Scottish | £406 .. |

Although the whole book is teeming with questions of national import it is particularly pleasing to observe the full treatment of questions relating to labour. Space will not permit of many details, but it is worth noting that Sunday duty and night duty (10 p.m. to 4 a.m.) is paid at time-and-a-quarter. Drivers and firemen receive a day's pay for 140 miles and an hour's pay for each additional fifteen miles. To-day the wages bill for labour is about £125 millions, compared with £50 millions in 1913, equal to an increase of 150 per cent. Railway shareholders may therefore console themselves, if they possess sufficient philosophy so to do, with the knowledge that their reduced dividends are not without benefit to other members of the community.

Turning to another aspect of the subject one had almost forgotten the passenger duty imposed by Parliament on all except third-class passengers, and which amounts to about £400,000 a year. Nor will the public be generally aware that the salaried staff of the railways have no personal appeal against their income tax assessments.

Much interesting reading is to be found on the effect of road motor transport, which is well worthy of serious consideration.

The last chapter in the book is on accounting and finance, and abounds in important facts and figures. One example must, however, suffice; that is, that per £1 of receipts finds its distribution as to 10s. 8d. in remuneration of labour. To those of us who are compelled to take a fair number of meals on the trains it is illuminating to learn that the catering on the Pullman cars is not generally carried out by the railway companies themselves.

With respect to the railway hotels, these appear to have originated with the Euston Hotel, the prospectus of which (1838) contained the assurance that a licence for the sale of wines and spirits was not contemplated.

Reverting to the question of accounting, one cannot help but feel a little regretful that the authors have not given us some explanation of such things as the "Non-gots" or no debit ledgers, alluded to by at least one witness before the Royal Commission on Railways.

We cannot close this review, however, without expressing the indebtedness of every student of the railway question to Sir Josiah Stamp and Mr. Wood for so excellent and timely a contribution to its elucidation. No one who desires to understand the true inwardness of the position need now remain in ignorance, when the expenditure of two shillings will bring enlightenment.

Manchester and District Society of Incorporated Accountants.

Annual Dinner.

The 42nd annual dinner of the Manchester and District Society of Incorporated Accountants, which took place at the Midland Hotel, Manchester, on Tuesday, November 20th, brought back echoes of the Incorporated Accountants' Conference dinner in the same banqueting hall a year ago, at which the profession had surrounded itself with a host of distinguished speakers headed by the Lord Chief Justice. This year's function may not have reproduced the high flights of oratory of its predecessor, but the utterances were a balanced blend of the informative and the diverting, and a large company spent an enjoyable evening. In the reception hall prior to the dinner there were displayed framed etchings of the new headquarters of the Society at Incorporated Accountants' Hall, and it will be a matter for surprise if copies of these are not soon to be found in many offices and homes in the Manchester district.

Mr. ALBERT CHADWICK, F.S.A.A., President of the Manchester Society of Incorporated Accountants, was in the chair, and among the guests were:—

His Worship the Mayor of Salford (Councillor A. H. Collins, J.P.), Mr. Thomas Keens, F.S.A.A. (President, Parent Society), Mr. W. E. Thompson, J.P. (President, Manchester Chamber of Commerce), Mr. N. J. Laski (Barrister-at-Law), Mr. J. R. W. Alexander, M.A., LL.B. (Parliamentary Secretary, Society of Incorporated Accountants and Auditors), Mr. E. J. Bowerbank (Manager, Lloyds Bank Limited), Mr. W. T. Bell, F.C.A. (President, Manchester Society of Chartered Accountants), Mr. E. G. D. Liveing (North Regional Director, B.B.C.), Mr. Harold Roberts (The Registrar of the Palatine Court), Alderman A. Williamson (Deputy Mayor of Salford), Mr. R. T. Hindley (Manager, Williams Deacon's Bank Limited), Mr. H. Pilkington Turner, M.A., LL.M. (Director of Extramural Studies, Manchester University), Mr. E. R. T. Cooke (Manager, Barclays Bank, Limited), Mr. Frank Norris, F.A.I. (Chairman, Manchester and District Branch, Auctioneers' and Estate Agents' Institute of the U.K.), Mr. F. N. Walker (Manager, Midland Bank Limited), Mr. Henry L. Marsden, B.Com. (Principal, Municipal High School of Commerce), Mr. G. F. Singleton, Mr. R. Simpson Duthie, (Hon. Secretary, Cumberland and District Society of Incorporated Accountants), Mr. Joseph Rhodes (President, Bradford and District Incorporated Accountants' Society), Mr. J. W. Richardson (Hon. Secretary, Sheffield and District Society of Incorporated Accountants), Mr. H. Reynolds (Hon. Secretary, Bradford and District Incorporated Accountants' Society), Mr. Percy Toothill (President, Sheffield and District Society of Incorporated Accountants), Mr. Geo. A. Marriott, Mr. Fredk. C. Crosland (President, Yorkshire District Society of Incorporated Accountants), Mr. A. E. Noon, (President, Liverpool Society of Incorporated Accountants), Mr. T. N. T. David, B.A. (Hon. Secretary, South Wales and Monmouthshire District Society of Incorporated Accountants), Mr. Thomas Silvey, Mr. H. Bailey, Mr. G. R. Berry, Mr. A. Bewley, Mr. A. Binns, Mr. A. Brown, Mr. W. S. Burton, Mr. G. H. Congdon, Mr. D. Cooper, Mr. F. R. Cooper, Mr. G. Craven, Miss D. Cross, Mr. J. Duckworth, J.P., Mr. J. P. Duxbury, Mr. N. Duxbury, Mr. A. T. Eaves, Mr. W. Eaves, Mr. W. H. Eckersley, Mr. E. Entwistle, Mr. H. Entwistle, Mr. F. A. Fitton, Mr. D. J. Gibb, Mr. F. Gill, Mr. R. Gregg, Mr. H. Hall, Mr. H. Hampson, Mr. G. H. Handford, Mr. F.

Hargreaves, Mr. E. C. Harvey, Mr. A. Hattersley, Mr. A. Hayward, Mr. N. K. Heatley, Mr. R. Heatley, Mr. J. l'Estrange Heppard, Mr. F. Heyes, B.A., Mr. R. Hindley, Mr. H. P. Hollingdrake, Mr. J. Hope, Mr. H. Hoyle, Mr. H. E. Hoyle, Mr. C. B. Hudson, B.A., LL.B., Mr. J. R. Hughes, Mr. J. A. Hulme, Mr. N. A. Hulme, Mr. H. St. John Jackson, Mr. H. B. Leah, Mr. F. Lofthouse, Mr. D. Lord, Mr. J. H. Lord, J.P., Mr. J. McIntyre, Mr. F. P. McKellen, Mr. N. McKellen, Mr. G. A. Marriott, Mr. W. D. Marsden, Mr. J. H. Marshall, Mr. J. Mason, Mr. W. A. Nixon, Mr. B. Ormerod, LL.B., Miss A. E. Patterson, Mr. J. M. R. Petrie, Mr. A. F. Pickup, Mr. Arthur E. Piggott, Mr. H. Piggott, Press Representatives, Mr. H. B. Redfern, Mr. A. B. Roebuck, Mr. C. E. Rogerson, Mr. H. T. Sales, Mr. C. J. Shepherd, Mr. J. W. Shepherd, C.B.E., Mr. T. Silvey, Mr. F. W. Smith, Mr. H. Smith, Mr. T. S. Smith, Mr. T. Stott (York), Mr. J. Turner, Mr. F. Walmsley, Mr. T. M. Walmsley, Mr. C. Wardle, Mr. T. C. Whittaker, Mr. H. Wilde, Mr. W. H. Wildgoose, Mr. G. H. Williams, Mr. J. Williams, Mr. J. H. Williams, Mr. H. Withington, Mr. H. Woodward, and Mr. J. L. Worthington.

The CHAIRMAN, in proposing "The Cities of Manchester and Salford," remarked that in a year or two's time Salford would be celebrating the 700th anniversary of the year of its Charter, and although some of them often wondered why the two cities did not amalgamate, perhaps there was something to prevent it which they who were outside the corporation did not know about. He went on to mention several examples of civic progress in Manchester; experiments in one way traffic and automatic traffic control; the plans which were going forward to make Manchester the first provincial airport of the country; the fact that since the war over £3,000,000 had been spent on improvements to the Manchester Ship Canal, and, in fact, many matters which revealed a remarkable insight into municipal affairs by a man outside the councils of the corporation.

On the subject of the Lancashire cotton trade, Mr. Chadwick also evidenced a keen insight into some of the causes of its present depression. He said a great deal of the equipment of the industry was hopelessly out of date, and in its need to produce cloth at a price that would suit the customer, the cotton trade might well look to the example of the motor trade, where great advances had been made in endeavouring to adjust their cost to the pocket of the people to whom they sold the goods. The cotton trade was badly hampered by the prices in the finishing costs. If time permitted they could send cloth to Holland to be bleached and finished, and brought back again to Manchester cheaper than it could be done in England. Last year over 8,000,000 yards of grey cloth had been exported, and there had been a tendency for more to go out of the country to be finished abroad. If big combines, working in a lateral direction, were going to insist on charging big prices and making big profits, it was questionable whether they were really helpful to the commercial community. They might be lining their own pockets, but they were helping to kill the industry from which they drew their incomes.

The MAYOR OF SALFORD, Councillor A. H. Collins, responded to the toast, and referred to the fact that Salford was hemmed in on all sides by other authorities and was unable to extend its boundaries to meet the increasing population, and said "The proximity of the Manchester Ship Canal to our boundary means that we have a class of people in Salford that was unknown in my boyhood days. We have the dock labourer, black and white, we have all sorts of people taking possession of whole neighbourhoods." He went on to say that hundreds of good houses originally occupied by sheriffs, magistrates, judges, and

others, were now common lodging houses, and they had districts not far from the Town Hall that were now wretched places where dock labourers were associating with girls and producing a population that was a menace to the city. Speaking of traffic congestion, he said that they had increased the number of traffic policemen, and people were being killed on the roads quicker than in the war. He said on the road in which he lived five people had been killed in eight days, and he believed the only solution of their traffic difficulties would be the construction of an underground tube. (Hear, hear.)

Mr. HAROLD ROBERTS, Registrar of the Chancery of the County Palatine of Lancaster, proposing "The Society of Incorporated Accountants and Auditors—its Branches and District Societies," recalled the distinguished list of guests who had attended the function a year ago. It was a gathering, he said, of which any professional body might be proud and one to be long remembered. He saw the great body of accountants as a barrier, ever growing wider and stronger, between the great public of investors, shareholders, taxpayers, and indeed the public in every sphere of life, and the forces of error, misrepresentation and fraud. They stood as a protection to the honest man against the inroads of the dishonest man and the share-pusher. (Applause.)

Mr. THOMAS KEENS, F.S.A.A., President of the Parent Society, received a warm ovation on rising to respond. He said on the last occasion that he was before them he had spoken on the burden of the rates, but at that time he had not contemplated that rating relief would be bestowed on the just and the unjust alike. He never dreamt also that if a local authority was going to lose an enormous sum because of de-rating, that the money was going to be made up based on a formula of weighted population. It seemed to him that if a local authority lost a sum of money by de-rating, it was a simple thing to make up that money and not describe a formula which might, or might not, fit the occasion. Certainly not a formula which would operate as it did in two counties close to himself, one of which had a reasonable gain, and one of which had to lose an enormous deficiency. He was perfectly certain that until we recognised unemployment as a national disease which would have to be treated with a national remedy, we should never get a settlement. Mr. Keens went on to speak of the new headquarters of the Society at Incorporated Accountants' Hall, in London, which he described as a poem in stone. He said the money for the project was over-subscribed, thanks to the splendid way in which the districts had responded, and he expressed his sincere thanks for the help they had received from Manchester. He was proud to announce that the original beauty of the building would be preserved in every detail, for in carrying out necessary alterations they had the services not only of the son of the original architect, but the original builders. (Cheers.) The new headquarters were to have a Royal opening in February next, and he hoped that Manchester would be well represented at the ceremony. Mr. Keens proceeding, said that it fell to the Society of Incorporated Accountants to be international in its work. In a few days he would be going to Paris with the object, amongst other things, of inquiring into the interests of Incorporated Accountants in France. At the moment, he said, the spirit of narrow nationalism which had swept across Europe since the war seemed to be creating problems for them in all parts of the world, which did not lose in complexity when they remembered all the circumstances in which they were placed as a profession. With regard to recent pronouncements on the subject of consolidating the profession, he said he did not feel in a

position to say very much on this matter at present. What he would say, however, was that if ever the question of registration was to be settled satisfactorily, the outstanding fact would have to be, not the advantages of any particular body of members, not the advantages of the members of the profession as a whole, but the protection of the public. (Hear, hear.) And only on that basis would the House of Commons ever listen to any profession which went before it. It was the members practising in the provinces who were best able to suggest what the appropriate remedy should be, but Parliament would only grant it if they made out the case that it was necessary for the protection of the public against the unqualified and uncontrolled practitioner. (Hear, hear.) The fever of speculation which was prevalent at the moment, particularly in low priced shares, was directly concerned with high taxation. People had told him they were sick of earning money, a large proportion of which went to income tax and super tax, and they were therefore trying to obtain money which would represent capital appreciation and therefore not subject to taxation. From his observation, that speculation had gone too far. (Hear, hear.) Trading results for the future had been discounted, and he believed that many of the holders, particularly of the low priced shares, were likely to be pinched hereafter. He would point out to the Government there was a definite connection between the rate of taxation and speculation, and that if, in the Socialist paradise of the future, there was to be another new tax added, the only effect would be to intensify speculation and divert the necessary capital from production and would lead to still further speculation, which would be utterly unhealthy to the community as a whole. (Cheers.)

Mr. A. J. HINDLEY, General Manager of Williams Deacon's Bank Limited, submitted "Education and Industry" in a thoughtful speech which emphasised that high ideals and big business could be made synonymous.

Mr. H. PILKINGTON TURNER, M.A., LL.M., Director of Extra Mural Studies at Manchester University, said there was a beautiful and inspiring symbolism in the acquisition of Astor House as the headquarters of the Society. Many times, he said, in passing he had stopped to admire the beauty of the building. He went on to point out the advantage of having an increasing number of universities, not only on the grounds of accessibility, and the additional facilities for professional training, but for the enlightened public opinion which came from contact with universities.

Mr. W. E. THOMPSON, President of the Manchester Chamber of Commerce, replying to the same toast, recalled the pleasure he had experienced in being present at last year's dinner. He added that trade prospects were considerably better than they were a year ago, and now that finance had straightened out in many countries of the world international trade could go forward unchecked as it had been by these financial difficulties. He believed that a reduction in the cost of production generally of our goods was the one thing required at the moment to carry forward an improvement of our trade.

Mr. HENRY MARSDEN, M.A., Principal of the Manchester Municipal High School of Commerce, also responded.

Mr. JAMES A. HULME, F.S.A.A., Vice-President of the Manchester Society, proposed "The Legal Profession, Kindred Societies and Our Guests." He said that as the exigencies of the present day commercialism called for a combination of the law and accountancy, accountants were becoming more closely associated with the legal profession. It had been said that the two professions were competitive, but really they were

complementary, and he was pleased to say that relations between them were most cordial. They were pleased to welcome kindred societies because, like them, they were out to elevate the status and advance the interests of their profession, and while doing this were protecting the public from the incompetent practitioner. Those who had sat on committees and observed the luke-warmness of some of the members had sometimes felt a little disappointed, but they had their reward in the knowledge that they were doing something for their fellow men. They especially welcomed their esteemed President, Mr. Keens, whose work on behalf of Incorporated Accountants had been invaluable, and who contributed so largely to the success of the Conference last year. He was also pleased to welcome amongst them once more Mr. F. Walmsley, the "Father" of the Manchester Society, who would celebrate his 80th birthday on January 3rd next, and who in addition to being a Member of the Council of the Parent Society was a foundation member of the Manchester Society.

Mr. NEVILLE J. LASKI, replying for the legal profession, said it had always been a pleasure to attend the annual dinners of the Society, and he had found equal pleasure in lecturing to members of the Society. He congratulated them on securing Incorporated Accountants' Hall, which was a symbol of culture that reflected the very highest credit upon the Society and the profession of accountancy.

Mr. W. T. BELL, F.C.A., President of the Manchester Society of Chartered Accountants, in responding, said it was due to the efforts of the two great accountancy bodies, the Institute and the Society, that the reputation of the profession stood at such a high level. Mr. PERCY TOOTHILL, F.S.A.A., Member of the Council of the Parent Society and President of the Sheffield and District Society of Incorporated Accountants, also responded to the toast.

BRITISH BUILDING SOCIETIES.

Speaking at a Building Society Jubilee celebration in the Chelsea Town Hall, on the evening of November 14th, Mr. Harold Bellman, the Chairman of the Metropolitan Building Societies' Association said that the story of the rise of the modern building society from a parochial position to a place of national importance was as romantic as it was impressive and full of social significance. Before the war, the societies throughout Great Britain were advancing annually £9,000,000 to assist house ownership. Last year they advanced £35,886,000 for that purpose. To place at the disposal of the community over a million sterling weekly for house purchase was a great achievement. That so much had been accomplished was striking evidence of public interest and confidence in the truly co-operative work of the societies. The British societies claimed adherents, including depositors, of over one-and-a-half million people and had assets of £235,000,000.

Mr. John Durham, Incorporated Accountant, at present County Accountant for Cumberland, has recently been appointed Deputy Treasurer of the West Riding County Council, which is one of the largest county councils in the country.

ENGLISH SPEAKING ACCOUNTANTS IN PARIS.

An Interesting Gathering.

The sixth annual dinner of the English Speaking Accountants in Paris was held at the Hotel Continental, Paris, on the evening of November 23rd. It was by far the largest and most successful yet held. There were about 120 persons present, Mr. OSCAR FAWCETT, A.C.A., being in the chair, and, for the first time, the President of the Institute, Sir Nicholas Waterhouse, and the President of the Society, Mr. Thomas Keens, were able to attend. There were also present:—Mr. J. B. Cahill, C.M.G., British Commercial Attaché; Mr. H. C. MacLean, American Commercial Attaché; Mr. W. Hennessy Cook, President of the British Chamber of Commerce; Mr. J. C. Bullwinkle, Treasurer of the American Chamber of Commerce; and Mr. J. B. W. Alexander, M.A., LL.B., Parliamentary Secretary of the Society of Incorporated Accountants and Auditors.

The toasts of "The President of the French Republic," "The King," and "The President of the United States of America" having been given, the CHAIRMAN proposed the toast of "Our Guests," coupling with it the names of the President of the Institute of Chartered Accountants in England and Wales and the President of the Society of Incorporated Accountants and Auditors. In doing so, he said that he proposed to say little concerning the work of the Institute and the Society, because that was self evident. It might be useful, however, if he said something about the activities of what might be described as that "loose group of English speaking accountants in Paris," the members of which watched over many millions of capital invested in France. This informal organisation was inaugurated in April, 1923, and held a quarterly lunch and an annual dinner. The committee of the English speaking accountants in Paris had been able to establish great friendliness between accountants practising in France and they had been able to render considerable help to newcomers. They made themselves responsible for considering fiscal questions, such as the Budget, and the development of the organisation of French accountants (Expert Comptable). They anticipated much work in the future in connection with the greatly increased activities of the Fisc and he would suggest that the Committee could help the work of the League of Nations, particularly, for example, on the vexed question of double taxation.

As a result of the recent attempt to put the profession of accountancy in France on a proper basis, an Act had created the "Brevet d'Expert-Comptable Reconnu par l'Etat." In effect, this enabled a French accountant, subject to certain conditions, to secure a brevet, which gave him State recognition. From inquiries which had been made, it would appear there was no limitation of nationality so far as individuals who could sit for the examinations for the brevet were concerned, and that the necessary period of professional service could be served with British and American firms in France. A reduction of this period of five years professional service would also be considered in cases of accountants who had already served several years in the profession, in some cases a condition being that the applicant placed himself under the moral and professional patronage of an expert-comptable. Although only accountants of French nationality would be admitted to the brevet d'expert-comptable without taking the examinations, Mr. Fawcett thought that the present regulations were reasonable and that English speaking accountants had nothing to complain of. It was difficult

to foresee the result of the establishment of the brevet expert-comptable, but in the future there would probably be partnerships between Chartered, Incorporated and French accountants.

In connection with this activity on the part of the French profession of accountancy, he would like to point out that the clause in the proposed Supplemental Charter of the Institute, to limit membership of the Institute to British subjects, was of considerable concern to Chartered and Incorporated Accountants in Paris. Retaliation on the part of France might be expected and the regulations extending the brevet d'expert-comptable to English speaking accountants restricted. He desired to express the appreciation of the Committee for the attendance of their guests, especially of such very busy men as Sir Nicholas Waterhouse and Mr. Thomas Keens.

Sir NICHOLAS WATERHOUSE, K.B.E., M.A., F.C.A., in responding to the Toast, said that the question of the proposed Supplemental Charter of the Institute was sub-judice and he could say nothing about it. The English speaking accountants in Paris were the pioneers of the accountancy profession in France and the useful work which they had carried out had undoubtedly resulted in the recent French attempt to organise the profession. In spite of criticism, it must be remembered that French holders of the brevet must ultimately become well organised and subject to a disciplinary body with a proper code of conduct and ethics. This could only operate to the good of all accountants in practice in France. Competition from the French accountant, inspired by the work of his English speaking brethren, would undoubtedly increase, but they would not object to that for competition was healthy.

He would remind those present that the Institute still observed in every respect the aims as set forth in their Royal Charter of 1880, which was "the elevation of the profession of public accountants as a whole, and the promotion of their efficiency and usefulness by compelling the observance of strict rules of conduct as a condition of membership, and by setting up a high standard of professional and general education and knowledge and otherwise." Their original membership had increased from 600 to over 8,000, and they would shortly celebrate their 50th year. Ultimately, however, the Institute rested upon the integrity and *esprit de corps* of each of its members, not less of those who practised overseas.

Mr. THOMAS KEENS, F.S.A.A., who also responded to the Toast, said that the gathering was a unique one, inasmuch as it should be regarded as truly international. He wished in the first place to pay a tribute to the country in which they met, whose soil had been sanctified by the blood of their sons and ours. He was always reminded of this when travelling to the capital, on seeing the thousands of faithfully tended war graves. These could but serve to strengthen the bond which had been forged between us. The splendid way in which the war area had been restored was a tribute not only to the work of the administrators, but to the ability, thrift and citizenship of the common people of France. The "people have a mind to work," and they had reaped their reward in the thriving industries in the north. These had been successfully reconstructed, and there was a dearth of unemployment.

The good relationship between America and Britain was strongly evidenced in the activities of the aptly named English speaking accountants in Paris. After all, they had a common race and speech and, particularly in the field of accountancy, common ideals. He hoped that many of them would meet again at the International Conference of Accountants to be held next September in the United States

of America, which was likely to be as great a success as the one held in Amsterdam in 1926.

In dealing with the aims and aspirations of the Society of Incorporated Accountants and Auditors he need say no more than that they were precisely similar to those of the Institute. The Society, however, was continuing to preserve its bye-law whereby nine years approved professional service would be accepted in lieu of Articles of Clerkship, as qualifying for admission to the Final examination. They had found that this provision effectually disposed of the criticism, so frequently raised, that the profession was a "closed one" and that the "poor boy" could not obtain admission thereto. It brought many desirable men into the profession and had provided an argument of value in the recent proceedings on the audit clauses of municipal corporation bills in Parliament. The last year of his Presidency had been marked by two outstanding events. The first was the acquisition of Astor House, on the Victoria Embankment, as the permanent home of the Society. This has appealed considerably to popular imagination, and was so enthusiastically received by Incorporated Accountants that the debenture issue, to raise part of the purchase money, was quickly over subscribed. When this gem of British architectural art and craftsmanship has been restored and adapted it will be named Incorporated Accountants' Hall, and as such will be regarded by the Society as a trust in which the nation is interested. The second event was the adoption of the Scheme under which the whole of the Branches and District Societies covering Great Britain and Ireland would be re-organised and placed on a more uniform and extensive basis. This was a matter in which he was specially interested, and he hoped to be allowed to develop the scheme fully during the next few years.

Mr. Keens said that he was anxious whilst in Paris to inquire into the position of the English speaking accountants in France, as it was likely to be affected by recent French legislation. He was pleased to hear the re-assuring remarks of Mr. Fawcett in this connection, and would only observe that this development was typical of the New Nationalism which was to be seen in all parts of the world, particularly in Australia, South Africa, Argentine, Chile, and Japan, in all of which countries steps for the organisation of the accountancy profession had been recently taken.

Mr. J. BALFOUR HORNE, C.A., proposed the toast of "The Commercial Attachés." He said that the difficulties of the English speaking accountants in France were greater than they had ever been, particularly in connection with such matters as securing the necessary staff from home, and the payment of double taxation on dividends. In having such men as Mr. J. R. Cahill and Mr. H. C. MacLean at the British and American Embassies, they could congratulate themselves on being able to look to men of such wide economic experience.

Mr. J. R. CAHILL, C.M.G., the British Commercial Attaché, in replying said, it would appear that the whole world conspired to make a fortune for accountants. He thought that there was a great future for the profession, there being much room in France for a considerable expansion of their activities. Twenty years ago, France was a country in which the industries were run by small family concerns, only 3 per cent. being incorporated as companies. Since that time there had been a great movement to impersonal and much larger undertakings. France had more than recovered her pre-war position and was to-day a far greater Power than she has ever been. It must be remembered, too, that by the reconstruction of her industry there had been an amazing development of welfare work. For example, 70 per cent. of the coal workers in the North were worthily accommodated in houses built by the collieries.

Mr. H. C. MACLEAN, the American Commercial Attaché, who also replied, said that he regarded accountants as business doctors and not merely as men whose job was to deal with figures. He much appreciated the designation of the British and American accountants under the comprehensive name of "English Speaking." He did not know what a commercial attaché was but if he could help the profession of accountancy in any way he would be very pleased to do so.

Mr. J. H. JOHNSTONE, F.S.A.A., proposing the toast of "The Chambers of Commerce," paid a tribute to the assistance afforded accountants by the British and American Chambers of Commerce, to whom they never turned in vain for help and advice. In responding, Mr. W. HENNESSY COOK, President of the British Chamber of Commerce, reminded those present that accountants in France must have a more elastic mind than in England and the United States of America. After Mr. J. C. BULLWINKLE, Treasurer of the American Chamber of Commerce, had also replied to the toast, Mr. THOMAS KEENS proposed a vote of thanks to the Chairman, which was cordially received in the customary manner.

A delightful programme of music was given during the evening by the Orchestre Henri Caillon. The Committee of the English Speaking Accountants in Paris is doing useful work, and the CHAIRMAN, in proposing the toast of "The Dinner Sub-Committee," consisting of Mr. Edwards, Mr. M. H. Norman, and Mr. T. Norman Jenkinson, O.B.E., paid a well deserved tribute to the arrangements which they had made, under the able secretaryship of Mr. Norman Jenkinson, to secure a very successful and enjoyable dinner.

Obituary.

ALFRED NIXON.

The City of Manchester has lost an excellent citizen and the younger members of the accountancy profession in Lancashire a good and useful friend by the death of Mr. Alfred Nixon, F.C.A., F.S.A.A. Mr. Nixon was a partner in the firm of Alfred Nixon, Son & Turner, and was admitted a Fellow of the Society as far back as the year 1887. As Principal of the Manchester Municipal High School of Commerce, Mr. Nixon trained some hundreds of accountants for examinations. He was the author of many books on commercial subjects, accounting and banking, including Longmans' "Advanced Book-keeping," "Secretarial Work and Practice," and "Commercial Law." The funeral service was attended by a large congregation, among whom were representatives of the following societies: the Manchester Municipal High School of Commerce, the Manchester Municipal Evening School of Commerce, the Manchester and District Branch of the Chartered Institute of Secretaries, the Manchester and District Society of Incorporated Accountants, the Incorporated Society of Commercial Teachers, the Manchester Board of Secondary Schoolmasters, the Lower Mosley Street Schools, Manchester, Sale Education Committee, Manchester Education Committee, Manchester Rotary Club, Sale High School for Boys, Central Springfield School, Warehousemen and Clerks' Orphan Schools, Manchester Liberal Federation, Manchester Anti-Vivisection Society, the Lancashire and Cheshire Employers' Association of Skip and Basket Makers, the Guild of Insurance Officials, Sale Urban District Council, Messrs. Carharts Limited, and thirty-six members of the staff of Alfred Nixon, Son and Turner.

RATING REFORM SCHEME.

Explanation by Mr. Arthur Michael Samuel, M.P.,
Financial Secretary to H.M. Treasury.

The scheme of rating reform, which was launched in the Budget this year, is a plan to remove the main defects of the present system of local taxation.

Our system of rating has gone on since the time of Queen Elizabeth with few changes. The need of reform has long been admitted by all parties, but this is the first Government for 40 years that has had the pluck to take the matter seriously in hand.

What are the main defects of our present rating system? The most serious is the great differences in rates between one area and another. These differences seem to be increasing rather than diminishing. In some cases we have rates as low as 7s. 6d. in the £; in one area in South Wales as high as 34s. 4d. It would take me a long time to explain the many causes of these wide differences. Broadly speaking, trade depression and the consequent unemployment is the chief cause, but the greatest permanent cause is that some areas are rich and some poor. One of the results of our modern transport development is that the rich and poor do not live so much in the same area as was formerly the case. On the margin of every large town you can find rich and poor suburbs. In some parts of the country one can find great wealthy residential towns and in other parts poor industrial areas. One area with very low rates and pleasant surroundings, the other with few amenities and a crushing burden of rates.

Another cause of rate variations is the irregular distribution of industrial property, such as railways, docks and canals, factories, mines, &c. One often finds a township composed of nothing but the houses of wage-earners who go into other areas for employment.

A third cause of inequalities is the out-of-date system of government grants. Some of these are still being distributed according to the conditions of 40 years ago. This is because no Government has till now tackled the difficult question of redistribution.

These inequalities of rates are the first great defect of the present rating system.

The second is the handicap which rates impose on all forms of productive enterprise. Unlike the householder, the occupier of the mine, the shipyard, the factory or the farm, gets very little direct benefit from local expenditure. He has comparatively little voice in controlling the expenditure. Unlike the shopkeeper, he has to sell his products at prices fixed not in the local market, where local rates are taken into account, but in the competitive markets of the world. Rates are as much a part of the cost of production as wages. If the cost of production here is too high to compete with foreign prices, then we cannot sell our goods. Profits disappear, wages are forced down by foreign competition, unemployment goes up, trade is bad, and we all suffer directly or indirectly.

And the unfortunate effect of rates on industry is that the handicap becomes worse as the industry becomes less prosperous. The rates paid on the mine, on the factory or the farm do not go down in proportion to any fall in profits. For example, a factory or mine may be running at a loss and yet have to pay heavy rates. At the same time local unemployment forces up the rates and increases the handicap on the factory or mine which is still struggling to carry on. In some cases the handicap becomes so adverse

that the producer either gives up the fight and retires from business, or moves to an area where the rates are less, perhaps into a rural area where the industrial population is small. At first sight this may seem an advantage. But it is an economic waste, in time and money, to bring people from a distance to a factory in the country. A new township grows up round the new factory with its streets, sewers, schools and all the other paraphernalia of local government. These all cost money, and as the district is mainly working class the rates soon rise and the manufacturer can produce his goods very little cheaper for moving. Meanwhile the place from which he moved, which was already provided with all these services, is left with its derelict factories, its burden of unemployment, and all the misery and discontent which this brings in its train. The whole system works in a vicious circle, and is wasteful in the extreme.

Further, this burden of rates which adds to the cost of every article produced is not limited to the direct charge on the finished article. Each producer uses the product of others, and the price he pays for them always includes something on account of rates. And every time articles are carried by rail or water the price is added to because of the rates of the railway, the canal or the dock. Thus an accumulated charge on every article is piled up in respect of rates.

The great differences of rates and the way they handicap industry are the two great faults of the rating system which the Government have set out to remedy. In future, productive properties are to have their rates reduced to one quarter of their present amount. This quarter represents a reasonable payment for any direct benefit such properties derive from local expenditure. Agricultural land and buildings which have previously been reduced to the 25 per cent. level are to be freed entirely from rates.

Railways, canals and docks are also to be reduced to one quarter rating, but with a view to the benefit being passed on to their users. In the case of railways benefit is concentrated on the heavy traffics (coal, iron ore, mining timber, agricultural traffic). These have been the main sufferers hitherto from the high level of railway freights, and in view of the serious position of the coal, steel and agricultural industries this railway part of the scheme comes into force in December next.

But it must not be thought that in picking out productive industry and these particular traffics for rate relief we have meant to exclude other industries and the general public from benefit. The whole nation depends on its industries and especially the basic industries for its well being. Anything we do to re-establish their prosperity will come back to us in a thousand ways. Cheaper articles, better home and export trade, less unemployment, lower rates, higher wages and more wages to be spent in the distributing trades and shops, and so on. Truly it was said, "Ye are all members one of another." Our plan is to abolish the vicious circle of rates and replace it with a virtuous circle.

So much for the treatment of industry. The other section of the Government plan—the mitigation of the existing inequalities in rates—is a much more difficult matter. The relief to industry will, as one of its consequences, involve a great reduction in the amount collected by local rates. The Government have undertaken to bear on the Exchequer this loss of local rates. But it is not proposed merely to make good the actual loss in each area. This would do nothing to mitigate inequalities. The £23,000,000, which the Government is providing to make good the loss of rates in England and Wales, is being pooled with £16,000,000 of existing grants and about £7,000,000 new money from the Exchequer, making a rough total of £46,000,000. It is proposed to

use this great fund of about £46,000,000 to effect a very considerable readjustment in the resources of local authorities. Resources, not rates! It is no part of the Government plan to guarantee that every highly rated area, however extravagant, shall have its rates reduced, or that no low rated area, however thrifty, shall ever gain. The share in this great fund to be allocated to each local authority will be determined not by what it chooses to spend, but by its needs for local government services and by its ability to finance them. For this purpose a scheme has been worked out for the distribution of the fund. This scheme of distribution will come into force in progressive stages over the next fifteen years. Under that scheme we believe that no hardship will be caused to any area. Justice will be done to all.

But inequalities in the resources of local authorities cannot be dealt with entirely by means of Government grants. Looking back over our history we often find that as local services became more elaborate and covered wider areas, Parliament ordered a larger area of administration. This has been done in the case of poor relief, police, main roads, and most recently as regards education.

In the last three cases the county and county borough have, step by step, been adopted as the best area of administration. The Government propose to take the same course now in regard to poor relief and highways.

The Government hope that when these reforms are in operation no local authority will be prevented by lack of resources from making reasonable provision for the needs of its inhabitants as is often the case at the present day.

Before I sit down I ought to say a word about the petrol tax which, as you know, was put on to help to pay for the scheme. Insofar as it falls upon pleasure traffic it is a means of gathering in a contribution to the social needs of the poor areas, and the motor car user has recognised this aspect generously. Insofar as it falls upon commercial transport it is not really a tax at all. It is a payment for use of the public roads. Even added to the existing licence duties commercial transport is not being charged unfairly for the use of the roads. Moreover by means of the tax the competition between road and railway transport has been placed on a much fairer basis.

One other feature of this tax should be mentioned. You will remember that motor spirit produced from our own coal is not subject to the tax. We hope in this way to encourage the development of home produced petrol. That will help to restore the prosperity of our coal fields, find work for miners, create traffic for railways, increase employment generally and reduce the enormous bill we are paying every year for motor spirit from abroad.

Society of Incorporated Accountants and Auditors.

MEMBERSHIP.

The following additions to and promotions in the Membership of the Society have been completed since our last issue:—

ASSOCIATES TO FELLOWS.

DYSON, KENNETH DALE (J. E. Dale & Co.), District Bank Chambers, Market Street, Huddersfield, Practising Accountant.

FITZHUGH, WILLIAM EDWARD, B.Com. (Fitzhugh, Tullett & Co.), Finsbury Pavement House, 120, Moorgate, London, E.C. 2, Practising Accountant.

HUNT, ALFRED EDGAR, Secretary and Accountant, Singer & Co., Limited, Canterbury Street, Coventry.

MULLIS, ALBERT EDWARD (Allnutt, Bradfield & Co.), 17-18, Basinghall Street, London, E.C. 2, Practising Accountant.

OAKES, LEONARD MYAL, 20, Copthall Avenue, London Wall, London, E.C. 2, Practising Accountant.

PEARSON, WILLIAM (J. Pearson & Son), 5, Godwin Street, Bradford, Practising Accountant.

ROSS, GUY (Clarke, Dovey & Co.), 31, Queen Street, Cardiff, Practising Accountant.

SCOTT, WILLIAM ARCHIBALD, C.A. 29, Craiglockhart Crescent, Edinburgh, Practising Accountant.

WATSON, WILLIAM CAMPBELL (W. Campbell Watson & Co.), 70, Scottish Temperance Buildings, Donegall Square South, Belfast, Practising Accountant.

ASSOCIATES.

ADAMS, FREDERICK, Clerk to Slipper & Co., Bridgeway House, Bridge Road, London, W. 6.

BALL, ROLAND JAMES LEWIS, Clerk to Stanley Metcalfe, 9, Swinnow Drive, Pudsey.

BAYFIELD, LESLIE ERNEST, Clerk to Ernest E. Bayfield, 73A, Queen Victoria Street, London, E.C. 4.

BRAZIL, MATTHEW KEVIN, Clerk to W. A. Deevy & Co., 29, Barronstrand Street, Waterford.

BUXTON, SYDNEY HERBERT, Clerk to Willett, Son & Garner, 1, Cooper Street, Manchester.

CAINE, JOHN DERIC, Clerk to John Potter & Harrison, 22, Birley Street, Blackpool.

CHORLEY, WILLIAM REGINALD, Clerk to F. Geen & Co., Victoria Chambers, Liverpool Road, Stoke-on-Trent.

FORSTER, FREDERICK MINTER, Clerk to Walter Hunter, Bartlett & Co., 24, Bridge Street, Newport (Mon.)

GARDNER, HEDLEY PRATT, H.M. Inspector of Taxes, Cromwell House, Mill Street, Cannock, Staffs.

GEOHEGAN, THOMAS ANTHONY, Clerk to J. Pearson & Son, 5, Godwin Street, Bradford.

GRANT, DONALD LEWIS, City Treasurer's Department, The Council House, Birmingham.

HIBBERT, GEORGE ALBERT (Bedell & Blair), 44, Brazenose Street, Manchester, Practising Accountant.

INGE, ERIC ROYSTON (Howle, Smith & Field), 25, Sandgate Road, Folkestone, Practising Accountant.

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Some Views on Auditors' Certificates.

A LECTURE delivered before the Incorporated Accountants' Students' Society of London by

MR. C. J. MILL,
CITY EDITOR OF *The Times*.

The chair was occupied by Sir JAMES MARTIN, Incorporated Accountant.

MR. MILL said: I presume that I owe this invitation, the honour of which I very much appreciate, to that pretty custom that has grown up lately in the City of inviting the member of one profession to address the members of another on the business of the other. (Laughter.) It is a pretty custom because it permits the lecturer a freedom which a too close acquaintance with the subject would not permit. I propose to avail myself of that freedom.

The business of auditing is a very ancient one. It must date from the very earliest times, because it merely means an examination of an account to verify its correctness. Now that is a very big function, because no accounts, unless they are correct, have any value; and the bigness of that function has grown with the development of the joint stock company system, which, as you know, is the foundation of practically every form of modern economic enterprise and activity. Every Act which has been passed by Parliament in recent years has added to the responsibilities and strengthened the powers of the auditor. That, I think, testifies very clearly to the growing importance of the business of the auditor; in fact, there are scarcely any activities in business which do not come under the eye and supervision of the auditor at one stage or another. I am frequently surprised to find how often nowadays one finds the accountancy profession engaged in all kinds of important economic developments, both in business and finance. Very few of the major operations in the City to-day are carried out without the advice of eminent accountants.

One might almost describe the function of the auditor as that of a fiduciary trustee for the joint stock company system. Auditors are the policemen of finance. The Statute has laid upon them the responsibility of acting as watchdogs in the interests of the shareholders of our public companies, and by the discharge of these duties to the public they must necessarily be judged. This brings me really to the principal point of what I have to say.

A few years ago a very great British corporation issued a balance-sheet, to which was appended an auditors' certificate in the following terms: "We report to the shareholders that we have examined the above balance-sheet with the books of the company, and have obtained all the information and explanations we have required; we are of opinion that such balance-sheet is properly drawn up so as to exhibit a correct view of the state of the company's affairs according to the best of our information and according to the explanations given to us, and as shown by the books of the company." In the next report there appeared the following phrase in the auditors' certificate: "Subject to such provision for depreciation of buildings as may be necessary, and to the value of the investments in subsidiary and allied undertakings, we are of opinion that the balance-sheet is correct." Those certificates certainly would not warrant any alarming inference to be drawn by the average shareholder; the only definite qualification was to the effect that the depreciation allowed for buildings was perhaps not as large as it should have been. Imagine, therefore, the surprise with which the shareholders in that company some months later learned that the company

had suffered disastrous losses, running into many millions—in fact, it was afterwards learned that the whole of the capital, exceeding £10,000,000, had been lost.

THE LANGUAGE OF AUDITORS.

Now, what I am going to submit is this: not that the auditors themselves were unaware of the real position of the company, nor that they desired in any way to keep the knowledge from the shareholders, but that the idiom employed in a certificate, obvious enough to auditors and to other people who are accustomed to read auditors' certificates, was much too subtle for the average shareholder and investor. In fact, I think you may say that there are only two classes of persons who could reasonably be expected to understand the idiom—one, the general body of accountants, and the other the comparatively small and select body of people who are gifted with suspicious minds.

Three years ago another great British company issued its balance-sheet to which was appended a certificate which, while making certain reservations, wound up with the following phrase: "In our opinion this balance-sheet is properly drawn up so as to exhibit a true and correct view of the state of the company's affairs." Yet in the following year the company announced that it was necessary, owing to very heavy losses made over a period of years, to write off £3,000,000 of assets in addition to £3,000,000 which had previously been written off.

A third great British company at about the same time got into serious difficulties, but all that the auditors said in their certificate was "We have obtained all the information and explanations we have required; we have examined the above balance-sheet and profit and loss account and compared them with the books and vouchers of the company, and in our opinion the balance-sheet is properly drawn up so as to exhibit a true and correct view of the state of the company's affairs to the best of our information and the explanations given to us and as shown by the books of the company." This company a few months later wrote nearly £4,000,000 off the value of its assets.

As a journalist, I perhaps read more of the opinions of investors than those who are professionally engaged in the management and direction of companies, and I must say that I have a great deal of sympathy with those investors who, when these tragedies in the company world occur, write to us to protest against the inadequacy of auditors' certificates. They feel that where losses of magnitude occur the auditors can scarcely be unaware of them, and that they should endeavour to inform the shareholders, or to indicate to them, that these losses have in fact occurred. The phrase frequently met with in a certificate is that "subject to depreciation the balance-sheet is a true and correct statement." Well, that is certainly not a very informative phrase. What would one think if a servant came and said that "subject to the doors and windows being closed and everything being safe and sound, there was no trouble?" When he really intended to convey the fact that one's house had been burgled. We should think that he had not succeeded in mastering the English language. That is what I think the average investor feels about certificates written by auditors in cases where companies make very heavy losses. In none of these cases was the certificate worded in such a way as to suggest that the auditors had, after a long and diligent search for the capital, found that it had disappeared, in whole or in part, but that in fact is what actually happened.

I am frequently told that auditors cannot be expected to be more precise in the language they employ in their certificates because of the danger of doing damage to the company and to the shareholders' interests. Well, I think that view can be

exaggerated. If a company has suffered disastrous losses it has already injured itself, and no additional injury can in fact be done by an auditor if he informs the shareholders of the fact. If he refrains from disclosing that these losses have occurred he exposes innocent parties to the risk of suffering damage themselves by having relations with that company in ignorance of the fact that it may have lost the whole of its capital.

Auditors, I think, should remember that they have a duty to the public—as indeed all of us have—as well as to one's own particular clients, and I do not think they can ignore that duty to the public in the discharge of their duty to their shareholder clients. The suppression of material facts of an unpleasant kind merely serves to spread the area of damage, and I think that, taking the broad view of the responsibilities of an auditor to-day, the case for suppression is not a very strong one. It is true that auditors cannot be expected to be experts in the businesses in which they are interested. Frequently it may or does happen that a company makes serious losses without the auditors being aware of the fact. One realises, of course, that auditors cannot be expected to discharge the functions of valuer. If at any time they should suspect that a company has made serious losses, or that things are not going too well with a company, they should evolve some form of certificate which will warn the shareholders that the state of affairs requires further investigation, which they themselves, perhaps, are not able to give. No one will belittle the difficulties of auditors in these cases.

FIXED ASSETS.

The chief risk of loss is in respect of the fixed assets of the company. There is no difficulty in valuing the cash and the debtors, or, for that matter, the stock-in-trade of a company, although of course one knows of notorious instances where stock has been proved to be grossly over-valued. But auditors have certain facilities for valuing stock which they have not in the case of fixed assets. They can, I think, be guided by the age of the stock, they can be guided by the size of the stock—whether its amount is unusually large or not—and they can, probably by a cross-examination of the officials of the company, obtain a fairly shrewd idea as to whether the stock valuation is approximately correct.

The real difficulty, as I have said, is in regard to the value of the fixed assets, because in all those three examples I mentioned just now, the loss was really in respect of the fixed assets, to which I should add, also, investments in associated and subsidiary companies. I am going to suggest that the time is coming when fixed assets may have to be valued by experts from time to time; in fact, I think they should be valued probably once every five years. I was going to suggest that professional valuers should be employed for the purpose, only I was reminded the other day by a well known city business man that he had employed a valuer to value some machinery of a certain company, which he desired to purchase to merge with his own business. The valuer valued the machinery as a going concern at £80,000. My friend said: "I do not want to know its value as a going concern, because I propose to dispose of this machinery; give me its break-up or its realisation value." The valuer then said that the machinery would fetch £40,000. Actually it fetched £4,000. So I am not going to use the expression "valuer," but "expert."

BALANCE SHEET ITEMS.

Now, I should like to make one or two suggestions about the composition of balance-sheets. One often notices on the assets side of a balance-sheet items such as preliminary expenses and discount on debentures. These expressions

really are no more than euphemisms for debit balances. I should prefer that they were stated and given as debit balances, and the making up of the debit balance attributed to these different items. You will see that I do not wish to reduce the informativeness of the balance-sheet by this suggested change, but to show more clearly to the investor, the uninitiated investor, if you like—and they tend to grow very rapidly in these days—to show the uninitiated investor more clearly the situation of his company. The reason I think these items should be described more correctly—these debit balances—is that some shareholders write to the newspapers to ask what these items mean, and one has to explain that they are not assets at all, that they represent an expenditure which has been met by the company, or, rather, an obligation which rests upon the company which is undischarged as between the two sides of the balance-sheet.

The item of goodwill—a notoriously contentious subject—has, in my opinion, no real place in a balance-sheet. I would like to abolish it entirely, and for this reason, that its value and its variableness is more accurately expressed in the profit and loss account. The reason why I would prefer that these changes were made in the balance-sheet is that none of them really requires to be examined by auditors, since there is nothing to examine, and their appearance in an audited balance-sheet gives a wholly wrong impression to people unused to the structure and theory of balance-sheets.

Coming now to the fixed assets, the shares in associated and subsidiary companies, I think, should be valued on the basis of average profits, since any other basis is apt to mislead. Perhaps one might take a period of five years for the purpose of valuing the investments. You may remember that when an investor invests his money he really buys an income, and therefore the revenue of that company is the most important thing he desires to know. No balance-sheet, in my opinion, can be properly appraised unless the revenue is fully shown and properly allocated to the different earning items. But this is very rarely done. As regards the fixed assets of a company, such as buildings, land, &c., I suggest that if a company is a profit-earning company, a well-established company, then the cost of replacement of those assets is the more correct figure to give. If it is not a profit-earning company, then I think the basis should be its selling value; and if there are assets, such as patents and goodwill, which have to be included in the balance-sheet, then I think the only satisfactory denomination is the letter X.

MANAGEMENT VALUES.

The reason I am making these revolutionary suggestions is this: that I feel that the success of a company depends much more upon the management than is commonly admitted. Not infrequently we find that companies engaged in exactly the same line of business, with machinery and plant of a similar character, are producing totally different results, and I think the explanation is to be found really in the difference of management. Auditors are not expected to certify in the balance-sheet the value of the management—that is shown in the profit and loss account—and I do not think it is necessary to put a value to fixed assets of a company which more rightly belong to the human factor—the managerial element.

From recent correspondence which I have had, which bears on this subject, I have formed this impression: investors in these great English companies, which before the war paid dividends with the same regularity that the Government met its own obligations, have been greatly shocked by the revelation of these heavy losses, of which they complain they had no adequate warning from the auditors. They complain

that had they received timely warning of what was going on, they would have had the opportunity of stopping, perhaps, those losses before they reached the disastrous magnitude that they reached later. In some cases the losses have been so great that even when the whole of the share capital of the company has been deducted, there has remained a balance of writing off to be done at the expense of the debenture holders and other loan capital.

There is a danger, I feel, that if this sort of thing were to be very frequent, investors might lose their confidence in the value of debentures and other securities, which are a very important instrument for the financing of companies. They are very important because the capital which the more staid class of investor provides is obtained very cheaply, and if anything is done to undermine confidence in the value of debentures through inadequate warning to those concerned, then I feel that it will be much more difficult as time goes on to raise capital in that form, or at least it will be more difficult to raise capital on such reasonable terms as would otherwise be possible if there were fewer shocks and if more confidence was felt in them by the investor.

You may have gathered, perhaps, that what I have been saying this evening savours of criticism, but really I have not come to criticise auditors' certificates, or anything that they do, but merely to put before you a few ideas as to how balance-sheets and auditors' certificates appear to the man on the other side of the fence. No one has a greater respect and regard for the professional auditor and the profession of accountancy than I have. We journalists regard them as our most trustworthy guides in writing about the business of the City and of the company world. Accountancy fills a very large place in public life to-day, a larger place than ever it has filled before. In the future it will fill a still larger place—of that I am certain—and we are all very anxious that accountants should receive all the support which they will require to discharge the increasingly onerous burdens which are being placed upon them.

Discussion.

The CHAIRMAN: I should like to express my acknowledgments to Mr. Mill for coming here this evening and addressing us on this important subject. When I was a young man the City Editor was a gentleman who was generally hidden behind two or three columns of type, in an obscure part of our morning paper, which was then called the "Money Article." We knew very little about him. I think the practice was to give a tepid sort of notice about a thing if it was good, and if it was bad then severely to let it alone. The City Editor, or financial critic, as we know him, has been evolved during the last 25 years, and there are very few people to-day who do not turn to the City notes in their morning paper for some information in regard to financial matters, or for the price of stocks and shares.

Mr. Mill has dealt with our profession to-night in a very faithful manner, and therefore I think that for a few minutes we are in for a heart-to-heart talk. While recognising the position of our profession, some of the certificates given by auditors, which he has read, have met with a good deal of castigation at his hands. The cases referred to are only known to me through the usual channels of information, and I am not attempting to deal with them, because before doing so I should require to examine the balance-sheets for myself and obtain a good deal of information both from the auditors and their critics.

But I think I shall fulfil a much more useful purpose if I mention to you some steps which have been taken to strengthen the position of auditors, not only in their work but in the eyes of the public. As everyone here is aware, the Companies Act, 1928, passed into law on August 3rd last, but with the exception of sect. 92, which deals with share-hawking, the Act will not come into operation until a day to be fixed by an Order in Council, and it is understood that before that day

a new Consolidation Bill will be introduced into Parliament and the new Act will be incorporated into it.

Now, I want to say a word or two as to how this Act came about. It was passed upon the recommendation of the Company Law Amendment Committee appointed by the Board of Trade early in the year 1925, which completed its labours after sitting for about eighteen months. On this Committee I had the honour of a seat, together with two other members of our profession. Now, I am not prepared to advise either practitioners who might be disposed to take my advice, or members of this Students' Society, to take upon themselves, except in their own unfettered discretion, responsibilities as auditors beyond those laid down in this Act, and I wish to examine very briefly the position as it will be when the Act comes into operation.

Sect. 78 makes a new provision as to the liability of directors. I should explain, first of all, that it was common practice when a new company was formed to get the solicitors for the company to insert an article indemnifying the directors and officers of the company from any claim in respect of negligence, default, breach of duty, or breach of trust, which might arise, except owing to their own wilful default and neglect. The Companies' Committee felt that if any man took office as a director of a company, he must be prepared to run the ordinary risk of an action for negligence the same as anyone else, and that he ought not to be allowed to contract out of it.

Sect. 86 of this Act places upon the auditor the same liability for negligence as it places upon the director. This follows a clause of the Report of the Companies' Committee in regard to auditors; it was signed by all the members of the Committee, including my two colleagues and myself:—

"We are of opinion that in general the law as it stands with regard to the powers and duties of the auditors is satisfactory. It would be a mistake in our view to attempt further to define these by Statute having regard to the multifarious circumstances which in practice arise. It appears to us far better that the law should retain its elasticity in this respect than an attempt should be made to confine it within the bounds of a rigid formula. Cases in which auditors fall below the level of their duty are few and far between. On the other hand we consider that the protection which the ordinary "wilful default" clause gives to auditors, as was decided in the *City Equitable* case, is as unwarranted as it is in the case of directors, and we recommend that it should be forbidden."

Now, I did not expect to get any thanks inside the profession for our action, and I am not disappointed—(laughter)—but outside our own profession there has never from first to last, either in Parliament or outside of it, been any acknowledgment of our altruistic attitude, and I pray that neither my friends nor I will meet the fate of the inventor of the guillotine. (Laughter.)

I wish to say a word as to the form of balance-sheets in sect. 40, because this comes very near some of the observations which have been put before us by Mr. Mill this evening. Sect. 40 prescribes the form of the balance-sheet, and it states, with regard to the fixed assets, that it shall show how the values of the fixed assets have been arrived at. I think that that is all which can be reasonably demanded. I do not think for a moment that fixed assets should be put in a balance-sheet and that it should be left to the imagination of a shareholder as to how they have been valued, but if a clear statement is made respecting the valuation, in my opinion such a statement should be regarded as satisfactory. Then the Act also lays down that under separate headings there shall appear the preliminary expenses of a company, so far as they have not been written off, any expenses incurred in connection with any issue of share capital, or debentures, &c. I will not read the whole of the clause, but it says that the amount of the goodwill and of any patents and trade marks are to be separately set out. Mr. Mill has himself admitted that auditors are not valuers. Everybody here knows that this was laid down by the Court of Appeal in 1896, in the *Kingston Cotton Mills* case.

But I want more particularly to say something in regard to Mr. Mill's suggestion respecting preliminary expenses and goodwill. I quite agree that "preliminary expenses" is not a very satisfactory item to observe amongst the assets of a

company, and it certainly should be written off out of profits at the earliest possible moment. But in regard to goodwill, Mr. Mill sets us a veritable conundrum. Let me deal with a recent case of a company which had a capital of £2,000,000 sterling, half of which was invested in the purchase of goodwill. I would ask our Lecturer whether he would suggest that the capital, directly it was allotted to the shareholders, should have been written down to 10s. as not being represented by real assets? I think the shareholders, many of whom paid more than par for their shares, would be the first to take some drastic action, not only against the directors but in regard to the auditors.

Then with regard to shares in associated companies. I, also, see the difficulty of making a valuation respecting those shares; but again the shareholders should be clearly informed how the value of them has been obtained. I do not want to read long extracts from the new Companies Act, but those of you who have not studied it should do so, and you will there find how, on the recommendation of this Companies' Committee, Parliament has prescribed the manner in which the accounts of holding companies should be dealt with.

As to the weakness which is apparent in some of these matters, I deny altogether that it lies with the auditors. It lies with the manner in which promotions are placed on the market. Prudent men—and, may I say, women?—should not invest their money in companies where the goodwill is sold at an abnormal value; neither should they take up shares where the preliminary expenses of the flotation eat up a substantial portion of the capital. A short time ago my advice was asked in regard to investing in a company which went to allotment. I had no information before me except such as appeared in the public Press, but it did not take me five minutes to ascertain that the cost of floating this company was equal to 12½ per cent. of the issued capital. My advice, of course, was against any investment. The company carries on business to-day; it is an industrial business, but so far it has not paid any dividend to its shareholders.

I think I should like to get in a word against our financial critics and say that when I read, as I do with very great pleasure, their observations, I do not find very many protests against the enormous amount of money which is being spent to-day on preliminary expenses. The fact of the matter is that too many members of the public rush to put their money into concerns which they think offer opportunities of capital appreciation without taking any thought whatever of the soundness of the business offered and of its earning capacity. If they can plant their shares at a premium on some other unfortunate person they consider themselves very clever; but if, on the other hand, the shares are left on their hands, they are quite willing to go to a meeting and make an enormous fuss and place all the blame on the shoulders of the directors, and, possibly, on those of the auditors, instead of realising that they are in reality the victims of their own misplaced confidence.

To sum up the matter, the Companies Acts are on the Statute book for the protection and promotion of honourable business, and it has always been found impossible to hamper sound trading and finance for the purpose of avoiding roguery on the part of the few. Wherever it has been possible to strengthen the law, this has been done, but in cases where people are deliberately dishonest, resort should be made to the Criminal Courts instead of finding fault with the Companies Acts.

Mr. THOMAS KEENS, Incorporated Accountant: I am bound to say that I find myself in a very great difficulty to-night to offer any clear and consecutive thoughts upon the lecture to which we have listened, for want of notice and adequate preparation, but I should like to venture just a few remarks. If I may say so, I do think Mr. Mill was rather unfortunate in the illustration he gave. He asked, if our place had been burgled, what should we think of a servant who reported that "subject to the doors and windows being closed, everything was all right." You will understand he had previously ascertained that the place had been burgled. Now, obviously, if I may come to the accountancy profession, if the place has been burgled, that is a fact, and the auditor would surely take notice of the fact and report it. He would not make any qualification in his report thereon.

Our attention was called by Mr. Mill to the fact that we have, as a profession, created certain idioms which, to quote his words, "are not informative." I have often thought that myself, I must admit, but at the same time he has expressed an appreciation of our difficulties. I should like to assure him from personal knowledge that it does not infrequently happen that the auditor is greatly worried to know how far he ought to go in the qualification of his report. The accounts which have gone to the shareholders have not been the accounts which were first presented to him. They have been the subject of long and anxious conference with the directors, and in my own personal experience it has not infrequently happened that the particular company has turned the corner and become a very fine and successful thing, whereas it might very easily have been damned if the auditor had let himself go.

"Now," says Mr. Mill, "the position is this: that if the auditor does not come into the open and tell everything he has found, keeping back nothing, all the damage has been done already; the company has damaged itself, and the damage which will be done in the future is to the outside public." Well, it is an extraordinarily difficult position, as I have found to my cost. I do not mind admitting that my partner and I, in the earlier years, when we had not so much business as we have now and when it meant a lot more to us, have gone straight down to a board and said "We cannot sign these accounts, it is absolutely impossible"—my partner has said before we started "I suppose you know what this means; we have no alternative but resignation," and I said "Yes, but we must face the music." To my knowledge that has been done on several occasions by other members of our profession. I do not think the profession is at all wanting in appreciation of the duty it owes to the public, but there are the border-line cases and there are the cases in which, to the instructed mind, the clauses in the qualifications on the certificate are as plain as a pike-staff. Will Mr. Mill help us by showing some other qualifications by which the warning shall not only be to the initiated, but to the uninitiated?

Just one other thing about his suggestion as to the balance-sheet and assets which should not be there. Sir James has dealt with that sufficiently, so that I need not labour it. I was going to ask a similar question based upon somewhat similar circumstances. I think in any event it is infinitely better that those debit balances should remain upon the balance-sheet under their specific titles rather than under "debit balances including the following." I am rather inclined to think that it is more informative as it is. Of course it is rather difficult for any of us to get it into the brain of the average investor—of the man in the street—who cannot understand what those items mean; and there again I would suggest that, provided we get away from the idea of lumping, which we have striven for and which is now prevented by the new Companies Act, I shall not object to any other phraseology in order to show that it is a sum of money which has been expended and which it is intended should be written off.

With reference to goodwill, that is too big a question to go into—as to whether it ought to be written down or reserves raised against it—and I do not think it is material at the moment. Now comes the question of shares in associated companies—that they ought to be valued upon their dividend results. Well, that is a very serious and drastic proposal, and I would venture to suggest that there might be information, and the directors could satisfy the shareholders that although one of the associated companies had passed its dividend this year, its assets were intact and it was worth considerably more than would be represented by a dividend of nothing in the pound. One thing I do agree with Mr. Mill very strongly on is his remark that the management of a company is vital. We have all seen it. We need not go even to joint stock companies to know that two firms side by side, equally equipped with plant, with equal capitals and possibilities of buying in the best markets—one may make a profit and the other make a loss. To a very large extent, Mr. Mill says, it is a question of management, and thank goodness that does not come within the province of an auditor—that he should assess the value of the management to any particular company.

With respect to the warnings on the question of debentures one of course must concur. It is extremely important that companies should have access to the money market, should be able to get money on cheap terms for development purposes,

and there everybody will agree with Mr. Mill that anything which affects the security of those debentures is a most important factor. At the same time, I take it that it is impossible to get away from the element of risk in purchasing gilt-edged securities if such a thing as a great war obtains. I dealt with a large trust estate not long ago and the depreciation in industrials was negligible—they were not strictly trust securities—but the depreciation in the gilt-edged securities was terrible. I do not think we shall get away from the risk of any form of security whatever we may do.

These thoughts of mine are very discursive, and are based upon notes which I took as the lecture was proceeding. Of one thing I am perfectly certain, and that is that it does us an enormous amount of good, as members of a profession, to come up against entirely fresh ideas, let them be never so revolutionary, because it enables us to re-examine the basis of the ideas and the principles upon which we work, and to endeavour to approach with an entirely fresh mind these suggestions, in order to see what value there is in them and what we ought to propose for adoption, or what we must ask should be rejected in favour of the more tried methods which we have hitherto pursued.

Mr. E. MACKENZIE HAY, Director of the *Statist*: I have always understood that in any enterprise, whether it ranges from the making of love to the making of war, that the element of surprise is a very valuable asset, but I am not sure that it is of equal value to a man called upon to deliver a speech at a moment's notice. I must say I agree with a great deal that Mr. Mill has said to-night. We are faced every week with looking at balance-sheets until we are sick of the sight of them. I think, on the whole, it is fair to say that the majority of the certificates which are given by auditors very completely meet the case, but now and again we come up against really very serious "snags," such as Mr. Mill has given us examples of this evening. We are in touch with the public in a way that you are not, and we find that these are terribly damaging, not only to the reputation of joint stock enterprise in general but also to the reputation of and confidence in auditors in general. There is a point in connection with certificates given by auditors which I suggest might be considered, and it is this: If you are going to elaborate in your certificate the items upon which you think warning is desirable in the shareholders' interest and in the public interest, would it not be equally reasonable where you have ample evidence yourself (as in the case of companies which have a large number of subsidiaries, the value of whose shares is known to you, but is very much under estimated in the parent company's balance-sheet), would it not be reasonable that you should frankly say that these assets have been under estimated? In that case it seems to me you are not encouraging speculation; you are merely giving the shareholders who appoint you information they are rightly entitled to. Many a company, I know, sometimes from ulterior motives, keeps the market price of its shares low. I do not think a shareholder in those cases gets a very fair deal. I am not going to advocate the course I have mentioned, but my feeling is that if you are asked to give a great deal of explanation in the way of warnings, I think the principle is one which ought to be applicable all round. On the whole, I think the wisest plan is to leave the nature of the certificate to the discretion of the auditor rather than to put any pressure upon him with respect to it. I think Mr. Mill has dealt as faithfully with the subject as one would expect the City Editor of *The Times* to do; that is to say, he was perfectly frank, and all he said came straight from the shoulder. But I think he under estimated the difficulties under which the auditor very often works. Auditors, although appointed nominally by the shareholders, are, I suppose, in 99 cases out of 100, appointed actually by the directors, and it is a very hard thing, where there is that border-line or doubtful case that Mr. Keens spoke of, for the auditor to say "we will only do such and such a thing." I think we must appreciate the difficulties under which the auditor works, and say that on the whole he performs his functions very creditably and to the benefit of joint stock enterprise.

Mr. H. E. COLESWORTHY, Incorporated Accountant: It is my very great privilege to propose a vote of thanks to Mr. Mill for so kindly coming here to-night and giving us his very instructive lecture. It has been all the more interesting and

absorbing because it has been somewhat critical. It is said that criticism is always helpful, and as the accountant comes in for his fair share of criticism from the City Editor, he must be grateful for the help it affords him in his duties. In this connection it is pleasant to reflect that our duties have a good deal in common with those of the City Editor; to some extent they run exactly parallel, as, for example, in connection with public issues. The common object of the City Editor and the accountant is the protection of the general public. With this fact in mind it is clear that these meetings cannot fail to do a great amount of good, and in order to show Mr. Mill that that view is our real response to his criticism, I ask you to give him a very warm vote of thanks for his admirable address.

Mr. S. T. MORRIS, Incorporated Accountant, seconded the motion, which was carried by acclamation.

Mr. MILL: I am greatly indebted to you for listening to what I had to say this evening and for receiving it so kindly and so broad-mindedly. It may be that I did not show properly how much I myself and the other members of the profession of journalists owe to the members of your profession. Mr. Colesworthy said that we are really natural allies. We depend more upon the auditor than we do upon a report of the directors in estimating and calculating the value or real inwardness of a balance-sheet. I would like to say that we all realise very thoroughly the great efforts which have been made by the leaders of the profession, and notably by your Chairman, in not only accepting but urging and prevailing upon others to agree with him in emphasising the responsibility of auditors and increasing the value of their certificates to their clients—the general body of investors. The Act of 1928, which is to come into force some time next year, is a monument to the work and the public spirit of accountants. In it, as Sir James Martin explained to you, new responsibilities and new duties are placed upon them, and they will not shirk those responsibilities. Therefore I am quite sure that that spirit—the spirit of public service—which has distinguished the accountancy profession for many years is going to continue. I did not intend to convey that I thought the work of accountants and auditors merited criticism. On the contrary, I wished to indicate rather the aim and the ultimate goal that we, as journalists, think the accountancy profession should make their objective. Sir James Martin pointed out, I believe, that under the new Act it will be necessary to show how the values of the fixed assets have been arrived at. That, I admit, is a step in the right direction, but I think that time will show that a still further step will be necessary. One of the companies to which I referred this evening, had it been compelled to show how the values of its fixed assets had been arrived at, would undoubtedly have made its balance-sheet more informative, especially to the initiated; but I doubt whether it would have brought much practical comfort to the average investor, unused to scrutinising balance-sheets, to know how those assets had been incorrectly valued, for, in the first case I mentioned, the assets had been incorrectly valued. It adds very little to the knowledge of the investor, and certainly none to his satisfaction, to know how precisely the process of incorrect valuation has been carried out; and I feel that ultimately—not to-day, but ultimately—the question of the more scientific valuation of assets will have to be tackled. It is wise to proceed slowly in these matters. One realises the appalling difficulties which must confront auditors, and I have been extremely interested to learn from your President this evening that there have been many more cases than I have been aware of personally in which the auditors have fought staunchly, and to the last ditch, in the discharge of their duties and in defence of the interests of their clients. I think it is a very fine thing that auditors should be so public spirited and so upright in their conception of their duties, that they should do at their own cost and inconvenience and temporary damage—because I do not believe it is permanent damage; you cannot get prestige without paying for it—but it is very pleasant to learn that auditors make even greater efforts than some of us are aware of in defence of their clients' interests. On the subject of goodwill, your Chairman ventured to say that I had not explained how a company with a capital, say, of £2,000,000, made up as to £1,000,000 of goodwill, would deal with the matter in its balance-sheet. He suggested that possibly I had in mind that a company should cut down

its capital immediately after the issue of the shares to one-half their nominal value. I had not really that idea in mind at all. I had in mind the practice of a particular issuing house in London, which has only come into being in the last few years, but which has been a very successful issuing house, where they have made it a practice of never including anything in a balance-sheet for goodwill. They have always arranged that the goodwill should be expressed in the premium on the shares that they offer for sale, and I think that has many advantages. It enables the Press critics, of whose shortcomings I am fully aware, to point to the fact that the premium represents the intangible asset which the investor is buying, and which, although it may be worth that figure this year, may not be worth that figure another year; it emphasises the risk of the business, and I think that is an advantage. Now, I will not keep you any longer, but I wish to say how much I appreciate your kindness to me this evening, and I should also like to thank particularly your Chairman and the President of the Society for their very kind remarks.

A vote of thanks to the Chairman was unanimously accorded.

DUBLIN INCORPORATED ACCOUNTANTS' STUDENTS' SOCIETY.

LECTURE ON "RECENT DEVELOPMENTS IN BUSINESS CONTROL."

On November 16th, a lecture was delivered before this Society by Professor B. F. Shields, M.A., of University College, Dublin. He dealt with the question of "Recent Developments in Business Control." The chair was taken by Mr. A. J. Walkey, Incorporated Accountant, who is the Hon. Secretary of the Society. In opening his lecture, Professor Shields dealt historically with methods of business control commencing with the Middle Ages until the Nineteenth Century. He referred to the systems of the Merchant and Craft Guilds, the Domestic System, and the action taken by the State to promote agriculture, manufactures and commerce. Great changes were introduced at the end of the Eighteenth and during the Nineteenth Century, and these earlier conditions presented a marked contrast to the complex economic organism of the Twentieth Century. Having referred to the various forms under which business operations were conducted, with which his audience were familiar, he referred to the effect of limited Liability Companies and particularly of Holding Companies in relation to the delegation of executive power. Under this system, direction of general policy was vested in a board consisting of a few directors, resulting in a complete divorce between actual ownership of the invested capital and the control of the business conducted. Professor Shields drew attention to the comparatively small average holdings in companies which varied considerably in character.

Business combinations which were a prominent feature of present day organisation took a variety of forms—pools, cartels with sales syndicates, holding companies, consolidations and even international combines. Governments from time to time had attempted to curb anti-social activities of business combines, but on the other hand they could not overlook the public advantages which those organisations offered. While dealing with business combines he made reference to the increasing influence of co-operative organisation and its economic influence. As professional accountants they had doubtless watched with interest the trust investment movement, and the Lecturer particularly mentioned its application and possibilities in regard to Irish industry.

The meeting concluded with a vote of thanks to Professor Shields for his lecture.

District Societies of Incorporated Accountants.

YORKSHIRE.

LECTURE ON CO-PARTNERSHIP.

Lecturing recently before the Yorkshire District Society, Mr. Archibald Crawford, K.C., Director of the Economic League, said that the efforts made towards co-partnership in industry seemed to have been a fight against heavy odds. The workers thought that it would cut across trade union membership and weaken their movement. Supposing industry could have been the basis of co-operation at first, there would probably never have been trade unionism at all, and the disputes which we had known would have been avoided. But the co-partnership movement had produced very disappointing results. Comparatively few firms had tried it, and many of the schemes had lapsed. But as everyone wanted to have some property of his own, co-partnership seemed to be a move in the right direction. Indeed, he thought the real hope of the future lay in co-partnership, and the recent tendencies in trade union circles—as, for example, in the Mond-Turner conferences—showed that men were realising the possibilities of trying to get the best out of industry rather than attempting to smash the system.

The Balfour Committee's Report indicated that, so far as they had gone, co-partnership schemes had been half failures, but in cases where they had persevered with them they had given satisfaction. Facts pointed to a desire on the part of the workers to get a share in capital and avoid the antagonisms of the past. He hoped that Incorporated Accountants would endeavour to promote schemes wherever possible, because he believed that the essential human basis of industry was partnership. Industry might have gone wrong in the past, but he thought that what people wanted was some interest in and some control of business. He believed they should do everything possible to induce those on the labour side to forget the old antagonisms and to shape their policy in the direction of trying to get a real share in the capital and control of industry. Such great questions of policy could only be dealt with by experts.

The chair was occupied by Mr. E. B. Shaw, F.S.A.A., Huddersfield, who at the conclusion of the meeting called for a vote of thanks to Mr. Crawford, which was heartily accorded.

NEWCASTLE-ON-TYNE.

ANNUAL MEETING.

The annual general meeting of this Society was held on November 15th at Newcastle-on-Tyne. The retiring President (Mr. T. R. G. Rowland) took the chair, and he was supported by a large attendance of members. In moving the adoption of the report and accounts, he addressed the members and said: Gentlemen, it is my pleasure to submit an account of our stewardship of this District Society for the year ended June last. In addition to the usual information already furnished, there are one or two important matters which deserve mention.

Firstly, the outstanding feature of the year is the acquisition by the Parent Society of "Astor House," the magnificent freehold building situated on the Victoria Embankment on the Thames, and in future to be known as "The Incorporated Accountants' Hall." For many years past the Council of the Parent Society have been on the look out for a suitable suite of offices which would be in keeping with the professional dignity and standing which our Society has attained, and it

is a matter of congratulation that such a body as ours should now become the proud possessors of such a beautiful home.

The next item of importance is that of the Companies Act, 1928. In January, 1925, a Committee was appointed by the Board of Trade to consider and report what amendments appeared to be desirable in the Companies Acts, 1908 to 1917. The Report was published in June, 1926, and the recommendations of the Committee have, in the main, been adopted. The Companies Act, 1928, received the Royal Assent on August 3rd, 1928, but only one section—92 of the Act, which prohibits "share-hawking"—came into operation on the Act receiving the Royal Assent. The remaining provisions of the Act will not become operative until they are embodied in a Consolidating Act, which is intended to be introduced during the early part of 1929. Insolvency practitioners should carefully note the provisions of the Bankruptcy (Amendment) Act, 1926, and the Moneylenders Act, 1927, relating in particular to rates of interest allowed on proofs of debt failure to keep proper books of account and many other essential matters of reform.

The Finance Act is, of course, a "hardy annual," but special attention might be drawn to the important changes effected for years subsequent to 1926-27. The method of assessing trading profits on average, which had been the rule since the original imposition of income tax, has been abolished, and for the future the basis of assessment of most items of income will be the "full amount of the profits or gains, or income of the year preceding the year of assessment." In this connection the remarks of Mr. Justice McCardie at the recent Birmingham Assizes concerning income tax "experts" are significant:—"The defendant," said his Lordship, "is a type of rascal who poses as an income tax expert. Some such experts are honest, some are thoroughly dishonest. This case may well be a warning to the public, to choose persons whom they know to be honest and respectable, otherwise they will expose themselves to extortion, blackmail, and all sorts of financial loss."

"INCORPORATED ACCOUNTANTS' JOURNAL."

The *Journal* entered on its 40th year of publication with the October issue. Established originally as a quarterly record of the proceedings of the Society, it became a monthly journal in the year 1895. I think it is a generally admitted fact that the journal of any professional organisation is its most important publication, as it is not only the connecting link between the members and head office, but also the outside world. I consider all members should give it their support. Our District Society, as you know, extends from the borders of Scotland to the North and East Riding of Yorkshire, and I respectfully suggest to the Editors and the Council of the Society to institute a weekly publication.

It now only remains for me to thank you all sincerely for the support afforded during my term of office, and may I, in conclusion, particularly refer to Mr. White, who placed his board room at our disposal for lectures, and to Mr. Telfer, our energetic Secretary, whose courtesy and tact at all times is a pleasing feature in the conduct of this important Branch Society. I have much pleasure in formally moving the adoption of the report and the statement of accounts.

The motion for the adoption of the report and accounts was passed.

ELECTION OF OFFICERS.

Mr. T. R. G. Rowland intimated that, owing to pressure of work, he was unable to stand again as President of the Society. It was resolved unanimously that Mr. Edward Darnell, O.B.E., F.S.A.A., late City Treasurer of Newcastle-on-Tyne, be elected President. The following officers were also elected:—Vice-Presidents, Mr. W. M. McKenzie, Mr. W. H. Stalker;

Committee, Mr. J. W. Armstrong, Mr. M. H. Groves, Mr. W. Hughes, Mr. A. J. Ingram; Hon. Auditor, Mr. T. H. Major; Hon. Secretary, Mr. J. Telfer.

At the conclusion of the business meeting, Mr. Darnell presided at an informal dinner, at which about 100 members and students were present.

BIRMINGHAM AND MIDLAND.

WOLVERHAMPTON STUDENTS' SECTION.

The first winter meeting of this Students' Section was held at the offices of Mr. D. E. Campbell, Lichfield Street, Wolverhampton, on October 26th.

The Chairman (Mr. E. T. Brown, F.S.A.A.), was supported by Mr. D. E. Campbell, F.S.A.A., Mr. C. L. Lee, A.C.A., A.S.A.A., Miss L. S. Deacon, A.S.A.A., Mr. B. Holmes Walker (Hon. Secretary), and a number of articulated clerks and examination candidates drawn from the immediate locality.

After certain preliminary business dealing with the sub-committee's report concerning books for the library and the arrangements for the forthcoming lecture had been disposed of, short papers were delivered by two student members.

Mr. H. F. Raybone took as his subject "Executorship Law, with particular reference to the Devolution of Property on Intestacy, as Governed by the Administration of Estates Act, 1925," while Mr. B. Holmes Walker dealt with the "Evolution of the English Money Market."

The papers were followed with interest by those present, the majority of whom participated in the ensuing discussion. The meeting terminated with a hearty vote of thanks to the Lecturers and to the Chairman.

Syllabus of Lectures.

- 1928.
- Oct. 18th. "Procedure of Creditors' Meetings and Reporting to Clients thereon," by Mr. A. P. Bardell, A.S.A.A.
 - Nov. 15th. "The Practical Side of the Verification of Bar Takings in Hotel and Club Accounts," by Mr. T. Harold Platts, F.S.A.A.
 - Nov. 20th. Social Evening at Tony's Ball Room. (This function has been arranged by the Students' section.)
 - Dec. 7th. "The Accounts of Municipal Trading Undertakings," by Mr. Arthur Collins, F.S.A.A. (This lecture is by invitation of the Birmingham Chartered Accountants' Students' Society, and will be held at the Chamber of Commerce at 6.30 p.m.)
- 1929.
- Jan. 18th. Annual Dinner to be held at the Queens Hotel, Birmingham (details later).
 - Jan. 30th. Mock Meeting of Shareholders. The members of the Birmingham and District Branch of the Chartered Institute of Secretaries have been invited to attend and take part in this meeting.
 - Feb. 6th. "Important Points in connection with Absorptions, Amalgamations and Holding Companies," by Mr. E. Miles Taylor, F.C.A., F.S.A.A. (This lecture is by invitation of the Birmingham and District Branch of the Chartered Institute of Secretaries, and will be held at 110, Colmore Row, Birmingham.)
 - Mar. 12th. "Income Tax Difficulties," by Mr. P. Barnes, H.M. Inspector of Taxes, 1st District, Birmingham.

Lectures will commence at 6.30 p.m. and be held at the Society's room and library, 126, Colmore Row, Birmingham, unless otherwise notified.

Golf Section.—Matches are being arranged with other professional societies. Members are requested to notify the Hon. Secretary if willing to play for the Society.

CUMBERLAND AND WESTMORLAND.

Annual Report.

Your Committee have pleasure in presenting the second annual report for the year ending September 30th, 1928.

OFFICERS AND COMMITTEE.

The following officers and Committee have been elected for the session 1928-29:—President, Mr. E. J. Williams; Vice-President, Mr. F. Griffith; Committee, Mr. E. Lund, Mr. E. J. Williams, Mr. H. J. Rigg, Mr. F. Griffith, Mr. F. T. Kenyon, Mr. R. S. Duthie; Hon. Secretary, Mr. R. S. Duthie.

The Students' section representative is Mr. H. Graham.

Seven lectures were arranged by the District Society and the Students' section during the session.

The high standard which had been set in former years at the lectures was well maintained. An innovation was introduced by having one of the lectures at Kendal, when Mr. J. R. W. Alexander, M.A., LL.B., Parliamentary Secretary, Parent Society, delivered a lecture on "The Accountant and the Business Man." It is hoped to continue this feature in future years. The thanks of the District Society are due to those gentlemen who so kindly contributed to the syllabus.

The following gentlemen were successful in the Final examinations held in November, 1927, and May, 1928:—Mr. W. L. Harris (Carlisle), Mr. J. B. Mark (Carlisle), Sixth Certificate of Merit; Mr. W. E. Percival (Carlisle). Our congratulations are extended to them.

At the Autumnal Conference held at Manchester in September, 1927, the Society was represented by the President and Hon. Secretary.

LEICESTER.

On October 16th a lecture was given at the Old Oak Café, Gold Street, Northampton, by Mr. W. H. Grainger, F.S.A.A., on "Receivers."

The occasion was unique, in that this was the first gathering of Incorporated Accountants ever held in Northampton.

The chair was taken by Mr. Leonard Benbow, F.S.A.A., and tea was kindly provided by Mr. W. H. Fox, F.S.A.A., who is a member of the Committee of the Leicester and District Society.

The lecture, which was attended by the Secretary of the Leicester Society, was in every way a success, and it is proposed to arrange further lectures in Northampton during the session.

MANCHESTER.

ANNUAL MEETING.

The 42nd annual meeting of the Manchester District Society was held at Manchester during the last week in October. The chair was occupied by the President (Mr. Albert Chadwick, F.S.A.A.), who was supported by a good attendance of members and the following members of the Committee:—Mr. James A. Hulme (Vice-President), Mr. F. Walmsley, Mr. George A. Marriott, Mr. Fred Hargreaves, Mr. William Eaves, Mr. Norman McKellen, Mr. T. W. Sowerbutts, Mr. T. Silvey, Mr. Charles E. Rogerson, Mr. Halvor Piggott, Mr. J. H. Lord, Mr. Alfred Southern, Mr. Arthur Hayward, Mr. Godfrey Craven, and Mr. Arthur E. Piggott, Hon. Secretary.

The President briefly addressed the members, and moved the adoption of the report and accounts. The motion was seconded by the Vice-President (Mr. James A. Hulme), and was unanimously adopted.

The following officers and Committee were elected:—President, Mr. Albert Chadwick, F.S.A.A.; Vice-President, Mr. James A. Hulme, F.S.A.A.; Hon. Treasurer, Mr. Joseph Turner, F.S.A.A.

The following members were elected to fill the five seats on the Committee which had become vacant under the Rules:—Mr. Wm. Nicklin, Mr. Thomas Silvey, Mr. W. A. Nixon, Mr. Arthur Hayward and Mr. H. B. Leah.

It was unanimously resolved that Mr. Clifford Wardle, A.S.A.A., and Mr. Norman A. Hulme be appointed Hon. Auditors for the ensuing year.

BRANCHES AND DISTRICT SOCIETIES SCHEME.

The President pointed out that the new scheme of the Parent Society would come into operation in 1929, and certain adjustments of the Rules were necessary. Resolutions were passed to bring the payment of subscriptions and the financial year of the District Society into harmony with the general scheme.

Upon the motion of Mr. F. Walmsley, seconded by Mr. J. H. Lord, the following resolution was also adopted:—

"That Rule 5 be and is hereby altered to read 'that the Annual General Meeting of Members shall be held in the month of March to receive the Report and Financial Statement for the year ended December 31st. Nominations for election of the Committee to be lodged with the Secretary on or before February 28th.'"

SYLLABUS, 1928-29.

The President made a statement as to the arrangements for the ensuing session, the syllabus of which would be issued shortly.

VOTES OF THANKS.

A vote of thanks having been accorded to the Auditors for their services, the following resolution was adopted:—

"That the best thanks of the members be given to the President, for his services to the Society, and to the Secretary, and to all those who had contributed to the work of the Society."

The vote of thanks was acknowledged by the President, Secretary and Vice-President.

THE LATE MR. ALFRED NIXON.

At a meeting of the Committee of the Manchester District Society, held on November 1st, a resolution of sympathy with the relatives of the late Mr. Alfred Nixon was adopted. It was also decided to send a donation of two guineas to the Incorporated Accountants' Benevolent Fund in memory of the late Mr. Alfred Nixon.

Syllabus of Lectures.

- 1928.
- Oct. 19th. "The Companies Act, 1928," by Mr. John Hardie Lawton, LL.B., Solicitor.
 - Nov. 16th. "Some Insolvency Practice Points of Interest," by Mr. Arthur T. Eaves, F.S.A.A., F.C.A.
 - Nov. 20th. Annual Dinner.
 - Dec. 21st. "The Accounts of Executors, and Will Trusts," by Mr. Godfrey Craven, F.S.A.A.
- 1929.
- Jan. 18th. Income Tax Papers by Members (names and subjects to be announced).
 - Feb. 15th. "Valuations of Machinery and Industrial Properties for Financial, Insurance and Rating Purposes," by Mr. G. F. Singleton.
 - Mar. 20th. "Case Law as affecting Secretaries and Accountants," by Mr. Neville J. Laski, Barrister-at-Law. Joint Meeting with Members of the Manchester and District Branch of the Chartered Institute of Secretaries. (To be held in the Bleachers' Association Hall, Blackfriars Street.)
 - Mar. — Annual General Meeting.
 - April — Special Meeting of Members.

Meetings will be held at 6 p.m. in the Manchester Estate Exchange, 46, Fountain Street, Manchester (except meeting marked *).

The monthly luncheon will be given in the Midland Hotel, at 1 o'clock, on the second Wednesday in each month as follows:—December 12th, 1928; January 9th, February 13th, March 13th, April 10th, May 8th, 1929.

SHEFFIELD.

ANNUAL MEETING.

The annual meeting was held at the offices of the Society, Sheffield, on November 16th. The President (Mr. Percy Toothill, F.S.A.A.) occupied the chair, and was supported by Mr. L. Lewis, A.S.A.A., Vice-President.

The President, in moving the adoption of the report and accounts, pointed out that the last year had been a very satisfactory one.

Mr. C. A. Belbin proposed, and Mr. C. H. Wells seconded, that Mr. P. Toothill, the retiring President, be asked to accept the office for a further year.

The motion was carried, and Mr. Toothill thanked the meeting for his election.

Mr. L. Lewis, A.S.A.A., and Mr. F. W. Ogg, A.S.A.A., were elected Vice-Presidents, and the following members were elected to the Committee:—Mr. C. A. Belbin, F.S.A.A., Mr. D. Craig, F.S.A.A., Mr. C. E. Gray, A.S.A.A., Mr. A. B. Griffiths, F.S.A.A., Mr. E. R. Harrison, F.S.A.A., Mr. W. S. Newton, A.S.A.A., Mr. H. Toothill, F.S.A.A., Mr. C. H. Wells, F.S.A.A.

Mr. J. W. Richardson, A.S.A.A., was re-elected Hon. Secretary and Treasurer, with a vote of thanks for his services during the past year.

Mr. H. G. Toothill was re-appointed Hon. Librarian for the coming year, and Mr. F. E. Beech, A.S.A.A., was re-appointed Hon. Auditor.

It was reported that the members did not make full use of the library, and it was decided that a new catalogue be prepared for issue to the members.

Report.

Your Committee have pleasure in presenting to the members the 41st annual report on the work of the Society for the year 1927-28.

MEETINGS.

Six meetings were held in conjunction with the Sheffield and District Institute of Chartered Accountants, the Sheffield and District Institute of Bankers and the Sheffield and District Chartered Institute of Secretaries, and your Committee are pleased to report the continued success of these lectures. They beg to offer their best thanks to the Lecturers for their services.

SYLLABUS, 1928-29.

The following syllabus has been prepared in conjunction with the above District Societies, the arrangements this year being in the hands of Mr. W. G. Lee, the Secretary of the local branch of the Chartered Institute of Secretaries:—

1928.

Oct. 22nd. "How far should the Policy of Rationalisation be Applied to British Industries?" by Mr. W. L. Hichens.

Nov. 5th. "Credit, Currency and Trade, with some reference to the Impending Fusion of Treasury and Bank of England Notes," by Mr. A. W. Kiddy.

Dec. 7th. "Currency and Exchanges of India, China, and the Far East," by Mr. W. F. Spalding.

1929.

Mar. 22nd. (Subject to be announced later), by Mr. Arthur Collins, F.S.A.A. (Member of Council).

Two other lectures are being arranged, and dates and subjects will be announced later.

Further lectures for our own members, particularly student members, will be held, and particulars will be published later.

The Society welcomed the student members from the Nottingham Society on January 18th last, who were entertained at tea. The two Student Societies debated the advisability of abolishing secret reserves, and of the advantage of disclosing all reserves on the face of the balance-sheet.

During the year the Articles of the Parent Society have been altered to embody the scheme of the President with respect to District Societies, and your Committee were unanimously in favour of the alteration.

Six members were successful at the Final examination in 1927-28 (Mr. I. J. Cope taking the First Prize), and eight at the Intermediate examination. Your Committee tender their hearty congratulations to them.

LIBRARY.

The library is not used as fully as it might be, but it is hoped that more advantage will be taken of the facilities offered, and suggestions are invited for the purchase of new books in order to keep the library as up-to-date as possible.

PARENT SOCIETY.

Your District Society was represented at the Conferences of the representatives of District Societies, held in London during the year with regard to the work and organisation of the District Societies; also represented at the dinner of the District Societies at Bradford. Your President has also attended the annual functions of the following kindred societies: The Chartered Institute of Secretaries and the Insurance Institute of Sheffield.

SOUTH WALES AND MONMOUTHSHIRE.

CARDIFF AND DISTRICT STUDENTS' SECTION.

Mr. L. R. Williams, F.S.A.A., of the National Health Insurance Audit Department, was the lecturer at a meeting held on November 1st. The chair was occupied by Mr. W. I. Rodda, A.S.A.A., who was supported by a good attendance of members.

The subject of the lecture was "Auditing—Sidelights and Sidelines." In the course of his paper the Lecturer drew attention to the report of the Trustee Securities Committee presented by the Lord Chancellor to Parliament in May, 1928, before which Committee Mr. F. J. Alban, F.S.A.A., gave evidence.

The paper concluded with a *résumé* of the work carried out by the National Insurance Audit Department, which conducts the audit of the accounts and records of—

- (1) Approved Societies (Centralised).
- (2) Approved Societies and Branches.
- (3) Insurance Committees.
- (4) Pricing Establishments.

(5) The King Edward VII Welsh National Memorial Association (the body responsible for the treatment of tuberculosis throughout Wales and Monmouthshire).

On the proposition of Mr. Ivor Davies, A.S.A.A., seconded by Mr. E. E. Pearce, A.S.A.A., Mr. L. R. Williams was heartily thanked for his excellent lecture.

SOUTH OF ENGLAND.

Syllabus of Lectures.

1928.

Oct. 5th. "General Commercial Law," by Mr. W. Summerfield, M.A., B.C.L., LL.B., London.

Oct. 26th. "The Duties and Liabilities of Auditors," by Mr. W. H. Grainger, F.S.A.A., London.

Dec. 7th. "Cost Accounts," by Capt. H. E. Davis, M.C., A.S.A.A., London.

1929.

Jan. 18th. "Statistical Method, with special reference to Graphical Methods," by Mr. P. Ford, B.Sc. (Econ.), University College, Southampton.

Feb. 1st. "The New Company Legislation," by Mr. C. A. Sales, LL.B., F.S.A.A., London.

Mar. 1st. "The Criticism of Balance-Sheets," by Mr. A. Lester Boddington, F.S.S., London.

Meetings will be held at 7.15 p.m. on the dates stated herewith at 6, Portland Street, Southampton.

WEST OF ENGLAND.

Syllabus of Lectures.

1928.

Nov. 12th. "Voluntary Liquidations," by Mr. F. A. Webber, F.S.A.A., Bristol. Chairman: Mr. E. S. Hare, F.S.A.A.

Nov. 26th. "Partnership Law," by Mr. W. S. Scammell, LL.B., M.C., Bristol. Chairman: Mr. C. B. Steed, F.S.A.A.

Dec. 10th. "Contracts," by Mr. M. Share, B.A., Barrister-at-Law, St. Albans. Chairman: Mr. G. J. Barron Curtis, F.S.A.A.

1929.

Jan. 7th. Three Ten-Minute Papers by Students (subjects to be announced later). Chairman: Mr. C. W. Clark, F.S.A.A.

Jan. 21st. "Investigations," by Mr. E. Miles Taylor, F.C.A., F.S.A.A., London. Chairman: Mr. F. P. Leach, F.S.A.A.

Feb. 4th. Questions and Answers. Chairman: Mr. H. M. B. Ker, F.S.A.A.

The lectures will be given at the Royal Hotel, College Green, Bristol, on the dates named, at 6 p.m. promptly.

Investigation of the Affairs of a Joint Stock Company.

A LECTURE delivered before the Incorporated Accountants' Students' Society of London by

MR. FREDERICK DAVEY.
INCORPORATED ACCOUNTANT.

The chair was occupied by Mr. W. NORMAN BURR, President of the Society.

Mr. DAVEY said: I propose to give a short outline of a method of investigation which may reasonably be expected to yield definite results. Much that I have to say will, perhaps, appear obvious to those of you who have been in practice for many years, but in preparing the lecture I have had in mind, if I may say so, the needs of the student rather than those of the experienced accountant.

WHEN INVESTIGATION IS NECESSARY.

The investigation of the affairs of a joint stock company may become necessary either in consequence of action taken by shareholders while the company is carrying on business as a going concern, or in consequence of an order of Court for the compulsory winding-up of the company. While the business is being carried on under the control and management of the directors, shareholders holding not less than one-tenth (or in the case of a banking company one-third) of the shares issued, and having good reasons for demanding an investigation, may apply to the Board of Trade to appoint one or more competent inspectors to investigate the affairs of a company and to report thereon in such manner as the Board may direct. Or, a company may by special resolution appoint inspectors to investigate its affairs, and to report in such manner and to such persons as the company in general meeting may direct. The inspectors, when appointed either by the Board of Trade or by special resolution, have power to inspect all books and documents in the custody of the officers of the company, and to examine on oath the officers and agents of the company in relation to its business. The Legislature attaches some importance to these provisions and as I shall show later the powers of the inspectors in regard to enforcing production of books and documents and answers to questions will be strengthened by sect. 48 of the Companies Act, 1928, when that Act comes into operation.

When an order of Court is made for the compulsory winding-up of a company, an investigation is necessary, because the Official Receiver, who becomes Provisional Liquidator, is required by Statute to submit a preliminary report to the Court as soon as practicable after receipt of the statement of affairs:—

- (a) As to the amount of capital issued, subscribed, and paid up, and the estimated amount of liabilities and assets; and
- (b) If the company has failed, as to the causes of failure; and
- (c) Whether in his opinion further inquiry is desirable as to any matter relating to the promotion, formation or failure of the company or the conduct of the business thereof.

The Official Receiver may also, if he thinks fit, make a further report, or further reports, stating whether in his opinion any fraud has been committed by any person in its promotion or formation, or by any director or other officer of

the company in relation to the company since the formation thereof, and any other matters which in his opinion it is desirable to bring to the notice of the Court. The Court may, after consideration of the report, direct that any person who has taken any part in the promotion or formation of the company or has been a director or officer of the company shall be publicly examined. There are no similar provisions relating to a voluntary winding-up, but the Court may make an order for compulsory winding-up, after a voluntary winding-up has commenced, if it can be shown that a searching investigation is needed. Sects. 72 and 73 of the Companies Act of 1928 state the penal consequences of frauds and offences by officers of companies which are in compulsory or voluntary liquidation. These sections should be studied by those who may be required at any time to undertake such an investigation as we are now considering. With regard to the Companies Act of 1928, I should perhaps remind you that, with the exception of sect. 92, the Act does not come into operation until the appointed day, which has not yet been fixed. Sect. 92, which came into operation when the Act was passed, makes unlawful the practice of what has been described as "share pushing" from house to house.

METHOD OF CONDUCTING THE INVESTIGATION.

We need not discuss further the method by which the investigators may derive their authority, because at the moment I think we are more concerned with the method of investigation. We shall consider only public companies formed by registration under the Companies Acts, and assume no previous knowledge on the part of the investigator of the company whose affairs are to form the subject of inquiry. It is necessary, however, to assume that the investigator possesses certain qualifications. He should have a sound knowledge of the provisions of the Companies Acts and of the principles of mercantile law and practice, including, of course, the law of contract. He should be acquainted with the methods ordinarily adopted in promoting and forming a company, and he should know the duties of directors, secretaries and other officers of companies. He should also possess a sound knowledge of the principles and practice of accounting and auditing, particularly as applied to the transactions of joint stock companies. This last qualification is, I think, essential, for it is difficult to imagine an investigation of this nature being completed without the aid of a fully qualified and experienced accountant. With these qualifications the investigator should be in a position to discover, if they exist, any irregularities in the conduct of the company's business or any failures to comply with the provisions of the Companies Acts. The main object of such an inquiry is to ascertain and report facts, and in this connection special attention should, of course, be given to any allegations which may have formed the grounds for demanding an investigation.

Our investigation will necessarily be divided into two parts, viz:—

- (i) The examination of books and documents;
- (ii) The examination of persons, viz, directors, secretary and other officers;

and in order to economise time the examination of books and documents should precede the examination of persons. The reason is that directors and even secretaries are not always able to recollect the details of important events which may have occurred some years previously and, unless the examiner is in a position to refer them to the relevant books or documents, the examination would be very laborious and would occupy a disproportionate length of time.

EXAMINATION OF DOCUMENTS FILED AT SOMERSET HOUSE.

I suggest, therefore, that our first step should be to examine the documents filed with the Registrar of Joint Stock Companies. This involves a visit to Somerset House and the payment of one shilling search fee. The documents on this file should enable us to ascertain:—

The date of incorporation of the company.

The nominal capital, and how divided.

The objects and powers of the company as stated in the Memorandum of Association.

The powers of the directors and the regulations of the company as stated in the Articles of Association.

The names and addresses of the directors at the date of incorporation of the company, and any subsequent changes in the directorate.

The terms of the prospectus issued to the public inviting subscriptions for shares or debentures.

The terms of any contract or contracts under which shares have been agreed to be allotted to vendors or others as fully or partly paid up for a consideration other than cash.

The terms of the report to the statutory meeting.

The amount of capital issued, subscribed and paid up, the amount of underwriting commission paid, and particulars of any mortgages and charges on the property of the company.

The contents of the statement in the form of a balance-sheet, which, under the Act of 1928, will be a certified copy of the last balance-sheet which has been audited by the company's auditors, together with a copy of the auditors' report thereon.

The terms of any special resolutions, &c.

CONTRACTS.

These documents must be carefully examined and notes made of all important facts, e.g., the date of incorporation, the objects of the company, the nominal capital and how divided, the capital issued, subscribed and paid up, the names of the first directors and particulars of subsequent changes in the directorate, the date, and names of parties thereto. A précis of all contracts should be prepared. While extracting information we should satisfy ourselves that statutory requirements have been fulfilled in all respects. Contracts with the vendors of property acquired by the company, and contracts with promoters, directors, managers or other officers should be specially scrutinised. Such contracts may, on investigation, lead to the discovery of secret profits derived by promoters, directors or others. Sometimes these secret profits are intentional, but not always. I remember a case in which it was discovered that a director had quite unwittingly drifted into a position which rendered him liable to make good a secret profit. The circumstances were something like these. He was approached by a promoter to make an advance of, say, £1,000, towards the cost of promoting a company. He was to receive interest, and repayment of the principal was to be secured by a debenture to be issued to him by the company in due course. As a further inducement to make the advance the promoter promised to transfer, and eventually transferred to him, 2,000 fully paid vendors' shares of £1 each. So far all was well, but subsequently he was invited to become one of the first directors, and as he thought a seat on the board would enable him to keep an eye on the financial side of the company's operations he assented. No disclosure was made in the prospectus of the terms of his arrangement with the promoter, and it was not until after the company had been ordered to be wound up, and his position had been pointed out to him, that he realised that by becoming a director he had placed himself in a fiduciary position in

relation to the company and was liable to refund the undisclosed profit of £2,000. In the result he was advised to pay the amount, and paid accordingly.

PROSPECTUS.

The information obtained from the documents on the Registrar's file must be kept well in mind in proceeding with the investigation. I refer in particular to the objects for which the company was formed, the parties to and terms of any contracts of sale and purchase, the regulations as to the qualification of directors, the conditions in which the directors might proceed to allotment, &c. The terms of the prospectus must be very closely examined, first to see that the provisions of sects. 80 and 81 of the Companies (Consolidation) Act, 1908, have been complied with; secondly to see that all statements of fact set out in the prospectus are true. Statements of opinion are of less importance. For example, the directors may express the opinion that the prospects of the company are so good as to justify them in believing that the company may earn very large profits, without adducing any evidence to support their opinion. The public must be presumed to take unsupported opinions of this kind at their face value. If, however, the directors state that the past annual profits of the business to be acquired have been sufficient to pay a dividend of, say, 20 per cent. on the amount of capital proposed to be issued, the statement must be capable of verification, or the directors will incur the risk of an action for damages for misrepresentation. The prospectus is obviously a most important document since applications for shares are generally made upon the basis of the statements contained therein. Therefore, every statement of fact should be tested and verified.

Inquiries should also be directed to discovering, if they exist, any instances of non-disclosure of material facts, or, as already mentioned, of undisclosed profits by promoters, directors or others who stand in a fiduciary relation to the company. What I have said in regard to the prospectus applies in general to any document issued by the promoters or directors with a view to inducing the public to invest in shares or other securities of the company.

SCRUTINY OF MINUTE BOOKS.

The next important step is to read the minutes of the directors' and shareholders' meetings, and at the same time make a note of every important resolution, particularly resolutions relating to the allotment of shares, the adoption of the purchase contract, the payment of the purchase consideration, and the allotment of shares for a consideration other than cash. Here an important point is to see that the terms of contracts referred to in the prospectus have not been varied without the approval of the statutory meeting of shareholders, and that the conditions as to the minimum subscription on which the directors might proceed to allotment have been fulfilled. A well kept minute book is a valuable source of information in regard to the history and conduct of a company's business. Any important contracts, other than ordinary trading contracts, entered into by the company are usually the subject of record in the minutes, and should be called for and scrutinised in the same way as those which have been filed with the Registrar of Joint Stock Companies.

BALANCE SHEETS.

Assuming all documents relating to the company's origin and subsequent history, including the Memorandum and Articles of Association, contracts, prospectus, &c., have been examined and a note made of all important points, and that the minute books have been read and similarly noted, the next step is to examine any documents in addition to the prospectus which may have been issued to the shareholders or to the

public, and which may have induced the public to invest money in the company either as original applicants for shares, &c., or as purchasers in the market, i.e., through the Stock Exchange. In these documents I include annual balance-sheets. Apart from the balance-sheets, the nature of the documents referred to must depend upon circumstances. Any which have formed the subject of allegations will, of course, be specially examined and their accuracy tested, the object being to make sure that no misrepresentation of facts has occurred.

As regards balance-sheets, to what extent, if any, should these be examined and checked in view of the fact that they are as a rule audited and certified by professional accountants? The auditors have had access to the books and papers of the company, and have presumably been furnished with all necessary information and explanations required from the officers of the company. They have satisfied themselves that the books show the true financial position of the company, and that the balance-sheet is properly drawn up so as to exhibit a true and correct view of the state of the company's affairs according to the best of their information and the explanations given to them. An auditor is not, however, in the same position as an inspector or investigator. He is justified in believing tried servants of the company and in assuming that they are honest, provided he takes reasonable care. If he discovers anything calculated to excite suspicion he should certainly probe it to the bottom, but he is not bound to be a detective. As a rule the auditor enters upon his duty without any grounds for suspicion, and without any reason for doubting the honesty of the directors and officers of the company. The position of an investigator is different. He usually enters upon his task in an atmosphere of suspicion and doubt. Allegations of misconduct or irregularity in the promotion or formation of the company or in the conduct of its affairs have perhaps started an agitation amongst the shareholders culminating in the appointment under sect. 109 of the Companies (Consolidation) Act, 1908, of one or more competent inspectors to conduct an investigation; or the company has been ordered by the Court to be wound up. This implies a failure, the cause of which demands investigation. In such circumstances it may be incumbent upon the person appointed to conduct the inquiry to verify the accuracy of all documents issued by the company to its shareholders, or to the public, because, if dishonest or irregular practices have been resorted to by directors or officers, it is just possible that elaborate and cunning devices have been used to deceive not only the shareholders and the public but also the auditors. Therefore, in some cases it may be necessary to test the accuracy of items in the balance-sheets in the light of facts disclosed during the investigation.

Here I may perhaps pause in order to refer to a question which has been the subject of discussion recently in the columns of the *Accountant*, viz. whether it is the duty of the auditor in the ordinary course of his work to inspect the documents on the company's file at Somerset House. It is no part of my business to-night to suggest what I think an auditor should do in this respect, but I have no doubt that an investigator should make sure that any mortgages or charges on the company's property registered at Somerset House have been duly entered in the company's register of mortgages, properly recorded in the books of account and clearly shown in the company's balance-sheets. But in this connection, as I have already ventured to suggest, there is a difference between the position of an auditor and the position of an investigator.

As you are aware a balance-sheet is a summary, arranged in a convenient form, of the balances of ledger accounts at a given date. These balances relate partly to matters of

fact and partly to matters of opinion. The auditors can verify all balances relating to matters of fact, and no doubt bring to bear a good deal of judgment and valuable experience on matters of opinion; but auditors are not valuers, and in such a matter as the value of stock-in-trade, for instance, are justified in accepting the certificates of responsible servants of the company.

VALUATION OF STOCK-IN-TRADE, &c.

Allegations affecting the balance-sheets will probably relate to the certificates of value of assets furnished to the auditors for the purposes of the balance-sheet. Stock-in-trade is generally an important item and its value is sometimes difficult to check, but there was a case some years ago where an investigation disclosed that the balance-sheets were fraudulent owing to the systematic overvaluation, within a limited number of years, of the stock-in-trade. In that case the stock value was certified by the managing director, who was highly esteemed and had for many years personally supervised the stock-taking and valued the items for the purposes of the balance-sheets. The company was a dividend paying concern and the person referred to had a large holding of shares which he desired to unload by selling in the open market. He was aware that the higher he valued the stock the larger would be the balance of profit shown, higher dividends would be declared and a rise in the market price of the shares would follow. Having adopted this policy for two or three years, and having sold a large number of shares to the public at profitable prices, he retired. When the next stock-taking took place and the stock was valued on a proper basis the effect on the accounts was disastrous, and an investigation was demanded by the shareholders. It so happened that the stock consisted mainly of heavy materials and the inquiry which followed involved a comparison of each item of stock and its stock value with the cost of the item as shown by the invoices. It was an elaborate and difficult inquiry but, in the result, the delinquent was found guilty and sentenced to a term of imprisonment.

OPERATIONS OF ALLIED COMPANIES.

Other cases where the accuracy of balance-sheets has been challenged have been cases in which the operations of groups of allied companies have been controlled by one or more dominant personalities. The *Whitaker Wright* case is an example, the *Jabez Balfour* case is another. These cases are now rather ancient history, but they possess some interest for the student of accountancy. Mr. Whitaker Wright achieved considerable success in the flotation of gold mining companies situated in Australia and, as a company promoter, he at one time stood very high in the estimation of the investing public. Consequently, he had no difficulty in inducing the public to subscribe for shares in each of a group of companies which he formed to acquire various assets, including interests in gold mining properties. He became managing director of three of the larger and more important of these companies, viz. the London and Globe Finance Corporation Limited, the Standard Exploration Company Limited, and the British America Corporation Limited, and embarked upon very extensive speculative dealings in the shares of these and other companies which he had promoted. Sometimes these dealings were in the name of one company, and sometimes in the name of another, and sometimes shares in one company were sold to another company in the same group, and *vice versa*. Speculative dealings on the Stock Exchange were carried out on a very large scale and resulted in very heavy losses, which brought about the failure of the three companies referred to. One transaction may be of interest in connection with the scrutiny of balance-sheets. One of the balance-sheets of the London and Globe Finance Corporation Limited was

made up to December 5th, 1900, but just before that date the company had speculative Stock Exchange operations outstanding amounting to over £1,500,000. All these commitments were, however, excluded from the Corporation's balance-sheet by transferring the whole of the operations to the Standard Exploration Company Limited, i.e., the liabilities to brokers on the one side and the shares at the contract prices on the other. This transfer was confirmed by formal resolutions recorded in the minutes of each company. On December 13th the whole of the transactions were written back and the liabilities and assets re-transferred to the London and Globe Finance Corporation. The explanation given was that the transfer to the Standard Exploration Company had not been acquiesced in by the brokers, and it therefore became necessary as a matter of book-keeping to re-adjust the entries by writing them back. But in the meantime the balance-sheet of the London and Globe Corporation had been issued and, as these huge speculative commitments had been eliminated therefrom in the way described, it could not be said to disclose the true financial position of the company. The auditors before signing the balance-sheet were led to believe that the transfer of the commitments was *bona fide*, and in that respect were deceived. Mr. Whitaker Wright was held responsible, was prosecuted and found guilty, but defeated the ends of justice by committing suicide in the Law Courts immediately after being sentenced to a term of penal servitude.

I will give another example of a fraud which occurred where two men were directors of a group of companies. One of the businesses was that of a printer which did work for a firm of machine makers, some of whose invoice headings were kept back and filled up for a total of £15,000 for plant, supposed to have been supplied to another member of the group which had been carrying on business for a number of years. The invoices were properly entered in the books of the supposed purchasing company and cheques were drawn in payment. Investigation disclosed the fact that the firm of machine makers never supplied the plant and did not receive any part of the £15,000. The cheques had been made payable to bearer, and the £15,000 had been credited in equal parts to the private banking accounts of the two directors. A point of some interest is that there were no receipts for any of the sums making up the total of £15,000, although I suppose there would not have been much difficulty in manufacturing receipts if they had been called for. A prosecution and conviction followed.

EXAMINATION OF DIRECTORS AND OFFICERS.

Having examined all books and documents we are now in a position to proceed to examine the directors, secretary and other officers of the company for the purpose of confirming any facts in regard to which there may be any question, and elucidating and explaining any points which have arisen during the inquiry. The effectiveness of this part of the investigation will depend upon the skill, judgment and tact exercised by the examiner. With the knowledge acquired in the manner I have referred to, he will, in any event, be furnished with ample material to pursue this part of the inquiry. As I have already mentioned, sects. 109 and 110 of the Companies (Consolidation) Act, 1908, provide that the inspectors have power to inspect all books and documents in the custody of the officers of the company, and to examine on oath the officers and agents of the company in relation to its business, and sect. 48 of the Companies Act, 1928, provides that "if any officer or agent of the company refuses to produce to the inspectors any book or document which it is his duty under sect. 109 to produce, or refuses to answer any question put to him by the inspectors with respect to the affairs of the

company, the inspectors may certify the refusal under their hand to the Court, and the Court may thereupon inquire into the case, and after hearing witnesses . . . punish the offender as if he had been guilty of contempt of court."

As regards inspectors appointed by special resolution passed by the shareholders, sect. 48 of the Act of 1928 amends sub-sect. (3) of sect. 110 of the Companies (Consolidation) Act, 1908, as follows:—

If any officer or agent of the company refuses to produce to the inspectors any book or document which it is his duty under this section so to produce, or refuses to answer any question which is put to him by the inspectors with respect to the affairs of the company, he shall be liable to be proceeded against in the same manner as if the inspectors had been inspectors appointed by the Board of Trade.

If the investigation is being conducted in consequence of a compulsory winding-up order, and the Official Receiver has made a report to the Court stating that in his opinion a fraud has been committed by any person in the promotion or formation of the company, or by any director or other officer of the company in relation to the company since its formation, the Court may make an order for the public examination of any such person. The persons are examined on oath, and must answer all such questions as the Court may put or allow to be put to them. An order for a public examination is made only in cases where the Official Receiver has reported to the Court that in his opinion a fraud has been committed. In other cases where further information is required a private examination may be held under sect. 174 of the Companies (Consolidation) Act, 1908, which gives the Court power to summon before it for examination on oath any officer of the company or any person indebted to the company, or who has property of the company in his possession, or who can give any information as to the company, and order him to bring with him any books or documents relating to the company. Under this section persons who are not officers of the company but have had dealings, or are alleged to have had dealings, with the company may be compelled to attend the Court and answer questions.

REPORT.

On conclusion of the investigation a report will be required, and the form of report will depend partly on the circumstances and partly on the judgment of the examiner. It is usual to state the facts in historical order, and deal specially with matters which have formed the subject of allegations of misconduct.

Thus the investigation is brought to a conclusion. I am afraid I have not dealt with the subject as completely as it is capable of being treated, but I have endeavoured, within the time available, to explain briefly the method of investigation which experience has in general shown to lead to definite results. I have referred to several cases of fraud in connection with the management of joint stock companies, but it would be wrong to assume that such cases are very common. We ought to remember that the Company Law Amendment Committee, after hearing much evidence, came to the conclusion that the great majority of limited companies both public and private are honestly and conscientiously managed.

Discussion.

Mr. M. BENJAMIN, Incorporated Accountant: I was greatly interested to hear the remarks of the Lecturer, and I am sure everyone will agree with the Chairman that it has been a very instructive lecture indeed. Mr. Davey made several remarks with regard to the provisions for the examination of directors. In the case of bankruptcy, there are several provisions with

regard to the discovery of property, and also as to the examination of third parties not connected with the business of the bankrupt. Are there any special provisions with regard to the discovery of the property and the examination of third parties who may be related to the directors in the case of liquidations?

Mr. DAVEY: The answer is to be found in sect. 174 of the Companies (Consolidation) Act, 1908. That section gives the Court power after it has made a winding-up order to summon before it any person known or suspected to have in his possession any property of the company, or any person whom the Court deems capable of giving information concerning the dealings or property of the company.

Mr. A. G. IRONS: Mr. Davey referred in his lecture to the importance of seeing that any promises made in the prospectus had been carried out, and that nothing had been done to the detriment of the shareholders' interests. I should like to ask what conditions are necessary in order that this can be carried out? I presume you have to prove fraud?

Mr. DAVEY: No, I do not think it is necessary to prove fraud. If the promises had not been fulfilled, and it could be shown that the shareholders suffered damage in consequence, any shareholder could issue a summons for misfeasance against the directors, and the case would in due course be heard by the Court.

Mr. IRONS: That is, apart from any proceedings that would happen as the result of the appointment of inspectors or investigators?

Mr. DAVEY: Yes, you need not wait for that. If the shareholders were satisfied that there had been irregularity, or misconduct, on the part of the directors and that they had suffered in consequence, they could apply for a summons for misfeasance and ask the Court for an order for payment of damages.

Mr. IRONS: It would, of course, be very difficult for the shareholders to prove anything unless they had the necessary information.

Mr. DAVEY: It would, of course, but the Acts provide the shareholders with power to obtain information in appropriate circumstances by obtaining the appointment of inspectors to conduct an investigation.

Mr. IRONS: There is another point you raised, with regard to an auditor inspecting the documents at Somerset House. I should have thought that any auditor would take care to see that the mortgages were registered at Somerset House, otherwise he would not be carrying out his duty.

Mr. DAVEY: That point is a little outside the scope of my lecture. I only mentioned it incidentally to show that although the auditors may not always find it necessary to do that, the investigator appointed to make the inquiry should certainly see that mortgages registered at Somerset House are also entered in the Register of Mortgages.

Mr. D. E. GIBBS: There is one question I should like to ask the Lecturer, and that is with regard to the examination of the officers of a company. Do they count the auditor as such—that is, the current auditor of the company? I believe the opinion has been expressed that past auditors have a right to refuse examination, but does that apply to the current auditor?

Mr. DAVEY: Are you referring to a public or a private examination?

Mr. D. E. GIBBS: The examination of officers by an investigator.

Mr. DAVEY: As a rule the auditors are quite willing to come forward and give all the information they can: there is no question of compelling them. As an officer of the company, the auditor would obey a request from the Official Receiver to come forward and give information, and would similarly answer questions put by an inspector.

Mr. A. V. HUSKEY: If the Board of Trade sanctions the investigation of a company's affairs—and I have in mind a case which was discussed recently in the Press on the question of the valuation of assets which were taken over at the time of an amalgamation—will the Board of Trade allow the investigators to employ outside persons for the purpose of

giving them a true valuation of the assets which may have been overvalued at the date of the balance-sheet?

Mr. DAVEY: I am not in a position to answer the question; it is a matter for the Board of Trade to decide according to circumstances and I can only express my own opinion. I do not imagine the Board of Trade, in a suitable case, would raise objection to the appointment of a valuer for the purpose of assisting the inspectors if the cost of the valuation were guaranteed by the parties who desired it.

Mr. Wm. STRACHAN, Incorporated Accountant: I was very pleased to hear Mr. Davey say at the outset that he was going to deliver a lecture to students. Sometimes the lectures are rather outside the present requirements of the students, and I think it is a very good thing that we should occasionally have a lecture which they can not only appreciate but from which they can derive real benefit. I am sure the lecture we have heard to-night is of that description. One thing that occurs to me in connection with investigations of the character Mr. Davey has been dealing with, is the question of the issue of shares for cash. It applies probably more in the case of private companies than it does in the case of public companies, because with a private company the proprietors have the habit of looking upon the company as if it were a private undertaking, and sometimes shares are issued which are deemed to be for cash, but which it is difficult to connect with the cash which is supposed to have been paid for them. As the law with regard to the payment of cash for share issues is very strict, great care has to be exercised in seeing that the payments are actual and not merely constructive. I do not know if Mr. Davey has come across cases of this character in the course of his investigations, but, if he has, a few words on the point might be interesting. Then there are other matters relating to private companies in connection with the transactions of the directors and managers who have a habit of regarding the company as their own and think they can do what they like with it. It is very difficult to convince them that they cannot, and to make them understand that a company, even if it is owned almost by one man, is nevertheless a separate legal entity and must be regarded in the same way as a company with a large number of shareholders. The owners of the shares may be only one or two people, but the company is nevertheless a company in all its operations, and the shareholders are merely shareholders. You find when you turn to the minutes of these companies, that sometimes minutes hardly exist at all. Things that should be there are not recorded, and they are frequently very important. When mentioning the examination of the files at Somerset House, Mr. Davey was, I believe, referring principally to auditors. Now I think there is one good reason why auditors should not be required to examine these files. It might be all right for auditors in London, but for those in the provinces it would be a very great hardship to ask them to come to London to examine the Somerset House files. When we get suspicious circumstances, I think we should have to do it, and take all steps to find out the real facts of the case. With regard to investigations generally, Mr. Davey has dealt mainly with those examinations which arise out of liquidation. A great many of the investigations are for other purposes, such as for the sale of the business, or the amalgamation of the business with another concern, which involve quite different considerations from those which arise in the circumstances Mr. Davey was describing. Of course, I understand that he could not deal with all these things in one evening. These cases call for a good deal of knowledge and capacity on the part of the accountant.

Mr. DAVEY: With regard to Mr. Strachan's question, where shares are issued for a consideration other than cash, there should be a contract filed at Somerset House. If there is no contract filed at Somerset House, then questions would arise as to the consideration for those shares. Cases have occurred where it has been quite clear that there has been valuable consideration for shares issued, but no actual cash payment and no contract for the issue of the shares has been filed at Somerset House. Whether such a transaction is good in law is, I think, a matter for the lawyers to decide according to the facts of the case.

On the motion of Mr. D. F. Goode, the Lecturer was heartily thanked for his lecture and a vote of thanks to the Chairman was unanimously accorded.

The South Wales and Monmouthshire District Society.

(Cardiff and District Students' Section.)

ANNUAL DINNER.

The third annual dinner was held at Cox's Cafe, Cardiff, on November 26th. The chair was occupied by Mr. W. I. Rodda, A.S.A.A., and among those present were:—Mr. F. J. Alban, F.S.A.A., Mr. John Allcock, F.S.A.A. (City Treasurer and Controller), Mrs. Allcock, Miss Allcock, Mr. Ivor Davies, A.S.A.A. (Vice-Chairman of the Students' Section), Mr. T. N. T. David, B.A., F.S.A.A. (Hon. Secretary of the District Society), Mr. J. Alun Evans (Hon. Secretary of the Students' Section), Mr. J. Pearson Griffiths, F.S.A.A., Mr. Percy A. Hayes, F.S.A.A., Mr. A. Percy Horton, F.S.A.A., Mr. D. H. Husband, F.S.A.A., Mr. W. J. Pallott, F.S.A.A., and Mrs. Pallott, Mr. E. E. Pearce, A.S.A.A., and Mrs. Pearce, Mr. Guy Ross, A.S.A.A., Mr. C. T. Stephens, A.S.A.A., Mr. Percy H. Walker, F.S.A.A. (Vice-President of the District Society), and Mrs. Walker, Mr. L. R. Williams, F.S.A.A., and Mrs. Williams, Mr. Stan. C. Williams, A.S.A.A.

The Chairman, in submitting the toast of "The South Wales and Monmouthshire District Society of Incorporated Accountants and Auditors," said that in recent years the membership of the Society of Incorporated Accountants and Auditors had rapidly increased and to-day stands at over 4,800, and as a body we are represented in all parts of the world. To headquarters at London all members look for the protection necessary for professional people, and the Parent Body places great importance on the value of the help given by the District Societies in their arduous task. I am very proud to be able to say that not the least of these is the South Wales and Monmouthshire District Society of Incorporated Accountants and Auditors.

The changes in law and the altered conditions of industry have made increased demands on the accountant, and to-day we find that his services are invaluable to the community. It has been said that business men can carry on their work with a little legal aid and without their stockbroker, but the accountant is most essential for their success. It is becoming more and more necessary for the accountant to specialise, and it has been suggested that before very long we shall have accountants, who are specialists, in practice as consulting accountants. I am convinced that accountants of to-day can help in a large way in bringing our country back to a state of prosperity, especially with their knowledge of economics, statistics and costing. It has been said, "once an accountant always a student," and I believe that when an articled clerk receives the news of his passing his Final examination he then realises he has just started, has just built a foundation, for the knowledge which he can only acquire by years of practical experience and very wide reading. It is at this stage that the District Society comes to his aid, as during his years of articles the Students' Section has catered for him, so now the District Society should, and in our case will, meet his requirements.

Before sitting down, I would appeal to all students to become active members of their Students' Section, and also to those who have just qualified to help in the work of such section. It is here that the student has his opportunity to discuss with other students his difficulties, and to acquaint himself with the art of public speaking, which is essential to a professional man. In proposing this toast I would like, on behalf of the Cardiff and District Students' Section, to

express our appreciation of the support given and interest shown by the District Society in our work, and I would assure them of our loyal support.

The toast was suitably responded to by Mr. Percy H. Walker, F.S.A.A. (Vice-President of the District Society), and Mr. John Allcock, F.S.A.A. (City Treasurer and Controller). Mr. Walker drew the attention of those present to the fact that it was hoped at an early date that properly equipped headquarters would be provided for the District Society in Cardiff.

Mr. Allcock mentioned that the District Society now comprised 50 Fellows, 38 Associates and 102 Students. The Students' Section, he said, was the nursery for the District Society.

The toast of "The Visitors" was submitted by Mr. Ivor Davies, A.S.A.A. (Vice-Chairman of the Students' Section), and was suitably responded to by Mr. T. N. T. David, B.A., F.S.A.A. (Hon. Secretary of the District Society), Mr. F. J. Alban, F.S.A.A., and Mr. W. J. Pallott, F.S.A.A.

INCORPORATED ACCOUNTANTS' MASONIC LODGE.

W.Bro. Richard A. Witty, L.R., was installed in the Chair of the above Lodge at the Hotel Cecil, Strand, London, on November 6th, in the presence of a large assemblage of brethren and visitors. Among those present were: W.Bro. Sir James Martin, P.G.D.; W.Bro. M. J. Faulks, P.A.G.D.C., P.P.G.W.Essex, P.P.G.R.Bucks.; W.Bro. F. E. Clements, W.Bro. M. Widdowson, W.Bro. Hy. Morgan, and W.Bro. Jos. Robinson, P.M.s of the Lodge; V.W.Bro. Sir Stanley Machin, P.G.Treas.; W.Bro. Sir Gilbert Garnsey, W.M. Chartered Accountants' Lodge; W.Bro. D. Ingamells, P.G.St.B.; W.Bro. A. R. King-Farlow, L.R.; and a large number of visitors from other lodges.

The W.M. appointed and invested his officers as follows:—Bro. W. C. Chaffey, S.W.; Bro. James C. Fay, J.W.; W.Bro. W. H. Payne, L.R., Treasurer; Bro. H. T. Gore Gardiner, Secretary; W.Bro. F. E. Clements, P.M., D.C.; Bro. A. Anderson, S.D.; Bro. A. V. Huson, J.D.; W.Bro. M. Widdowson, P.M., A.D.C.; W.Bro. H. J. Burgess, Almoner; Bro. A. R. Chart-Leigh, M.Sc., Organist; Bro. C. W. Legge, I.G.; Bro. R. E. Johnston, Bro. F. J. Nash, Bro. W. A. Pearman and Bro. W. J. Crafter, Stewards; W.Bro. J. W. Yacomen, P.A.G.D.C.(Bengal), Tyler.

The Million Memorial medals were presented by W.Bro. Sir Stanley Machin, P.G.Treas., and P.M. collars to the I.P.M. and his predecessor, W.Bro. Morgan. At the dinner which followed, W.Bro. Witty presided, and the usual loyal and masonic toasts were duly honoured.

In proposing "The M.W. Pro Grand Master (Lord Amptill), the R.W. Deputy Grand Master (Lord Cornwallis) and the Rest of the Grand Officers Past and Present," the W.M. remarked that the Grand Officers present that night were an epitome of Grand Lodge activities.

W.Bro. Sir Stanley Machin, whose name was coupled with the toast, said that Lord Amptill went from one end of the country to the other in support of the craft in which he was so devoted a worker. (Applause.) He mentioned that W.Bro. Witty had come forward in support of the R.M.B.I. during his year of office, and that he (the speaker) had been associated for 30 years with the first W.M. of the Lodge, W.Bro. Sir James Martin.

W.Bro. Sir James Martin, in giving "The Worshipful Master," said that W.Bro. Witty came to the firm with which he was associated from Christ's Hospital. He passed his examinations with distinction, taking honours in 1902. He commenced practice for himself as far back as 1905. The W.M. had taken an active part in establishing the status of the Society of Incorporated Accountants, and now held the position of an Examiner to the Society—an office which he most worthily filled. He had always shown a wide culture and a broad outlook. A founder of the Lodge, he had been D.C. and appointed to London Rank. In all these matters they congratulated him, and they felt that it was a distinct honour to have the Lodge presided over by such a man. (Applause.)

W.Bro. Witty, in his reply, stated that he had known Sir James in various capacities during the past thirty years—as a chief, as a brother Mason, as a brother Old Blue, as an adviser, and as a friend. In all these capacities his sense of indebtedness to Sir James was so great that he had long since given up any idea of being able to repay the debts. That evening he was especially grateful, because he realised that his original association with Sir James was the first step in the road which had eventually brought him to the chair of the Incorporated Accountants' Lodge. (Applause.)

Proposing the toast of "The Visiting Brethren," Bro. W. C. Chaffey said that there were present two guests to every Lodge member, a fact of which the Lodge might feel proud. Twenty-six of those present were guests of the W.M. W.Bro. Sir Gilbert Garnsey (W.M. of the Chartered Accountants' Lodge), W.Bro. H. Farrar (W.M. of the White Rose of York Lodge), W.Bro. Leonard Nevill and Bro. the Rev. Leonard Babb responded.

W.Bro. Robinson responded to the toast of his health, proposed by W.Bro. F. E. Clements, and Bro. Ashworth proposed the toast of "The Past Masters and Officers of the Lodge," to which W.Bro. Widdowson, P.M., and Bro. A. V. Huson responded.

An excellent programme of music was arranged by the Organist, and the proceedings throughout the evening were marked by the greatest enthusiasm.

Dublin Incorporated Accountants' Students' Society.

1928. Syllabus of Lectures.

- Oct. 25th. "Cost Accounts," by Mr. W. J. Machesney.
- Nov. 15th. "Recent Developments in Business Control," by Professor B. F. Shields, M.A.
- Nov. 22nd. "This Balance Sheet Business," by Mr. C. P. McCarthy, M.Com., F.S.A.A.
- Dec. 13th. "Stockbroking Procedure in relation to the Investor," by Mr. W. P. Hinton.
- Jan. 3rd. "Bills of Exchange," by Dr. James Henry, K.C.
- Jan. 24th. Debate on "Income Tax."
- Feb. 14th. "Bankruptcy Law and Procedure," by Mr. T. J. Graham, Solicitor.
- Mar. 7th. Short Papers by Four Students—Mr. Beddy, Mr. Dalton, Mr. Forde and Mr. Riley.
- Mar. 28th. "Company Law and Procedure," by Mr. R. J. Kidney, F.S.A.A.

At each meeting the chair will be occupied at 6 p.m. precisely, at which hour tea will be served.

Reviews.

Accountants' and Auditors' Diary, 1929. London: T. Whittingham & Co., Limited, 10-12, Little Trinity Lane, and 35, Bucklersbury, E.C. 4. (Price 6s. to 12s 6d. net, according to size and binding.)

This diary is specially designed for the use of accountants and many years' experience has proved that it is well adapted for its purpose. Provision is made for details of work done day by day, with a time summary at the end. The summary is specially ruled to enable the time for the whole year, or any shorter period, to be summarised under the client's name, additional columns being provided for working out the total time and extending the charges. In the cloth bound editions the summary is enlarged and divided into alphabetical sections for convenience of reference. The editorial matter is specially selected so as to be of practical use to accountants in the carrying out of their duties from day to day, and comprises the audit provisions relating to joint stock companies and companies incorporated under special Acts of Parliament. Special attention has been given to the provisions relating to income tax, super tax and sur-tax, full and up-to-date particulars being supplied in a form readily accessible and without unnecessary detail. Full information is likewise supplied with regard to deeds of arrangement, stamp duties, national health and unemployment insurance, &c. The diary is published in a number of different sizes and bindings suitable for the varying requirements of principals and clerks.

The Conduct of and Procedure at Meetings. Tenth Edition. By Albert Crew, Barrister-at-Law. London: Jordan & Sons, Limited, 116/118, Chancery Lane, W.C. 2. (352 pp. Price 5s. net.)

The passing of the Companies Act, 1928, has necessitated the modification of various parts of this book. Although the Act referred to is not yet in operation it is expected to come into force by the middle of next year, and those who are concerned in the conduct of company meetings will accordingly have to make themselves familiar with the alterations which it effects. As the title indicates, the book covers the whole ground of the procedure at company meetings and the notices in relation thereto. In the appendix will be found extracts from Acts of Parliament bearing upon the subject and specimens of all the forms likely to be required. Mr. Crew has produced a very complete handbook.

Handbook of Procedure and Evidence in Arbitrations. By W. T. Cresswell, Barrister-at-Law. London: The Institute of Arbitrators, 28, Bedford Square, W.C. 1. (168 pp. Price 6s. net.)

In a concise and readable form Mr. Cresswell has compiled a useful handbook on the subject of arbitrations. It deals more particularly with commercial arbitration and is intended primarily for the guidance of those who have not had practical experience as arbitrators. The procedure to be followed at the hearing, the rules as to evidence and the stating of a special case for the opinion of the Court are fully dealt with, as well as the making and publishing of the award and the costs, fees and arbitrator's remuneration relating thereto. The book has been written at the request of the Institute of Arbitrators and supplies information on nearly all the points likely to arise in an arbitration.

Cost Accounting Applied to Agriculture. By J. S. King, B.Sc. (Econ.), B.Sc. (Agric.). London: Humphrey Milford. (192 pp. Price 7s. 6d. net.)

The application of cost accounting to agricultural matters presents many difficulties partly from the fact that the residual elements of one crop frequently constitute part of the costs of the succeeding crop and partly from the fact that results depend very largely on valuations and estimates. Mr. King, in this publication, does not give the working out of a system but gives a large amount of useful information on the method of ascertaining the cost of the various elements that make up the total product of a farm. Anyone interested in agricultural matters will find much in this book which will be of interest.

Dairy Accounts. *Second Edition.* By F. Rowland, F.C.A. London: Gee & Co. (Publishers), Limited, 6, Kirby Street, E.C. 1. (252 pp. Price 7s. 6d. net.)

Owing to the re-organisation of the milk industry since the publication of the first edition, this book has been largely re-written so as to bring it into line with modern methods. The chapter devoted to shop and branch accounts has been considerably extended and an additional chapter has been added dealing with wholesale dairies. The legal enactments relating to dairies which appear in the appendix have also been brought up to date. The book is thus a very complete treatise on the subject.

Auditing. *Fourteenth Edition.* By L. R. Dicksee, M.Com., F.C.A. London: Gee & Co. (Publishers), Limited, 6, Kirby Street, E.C. 1. (1,108 pp. Price 21s. net.)

This publication is now well known in the accountancy profession and it is only necessary to say that in the present edition the reports of all important decided cases have been brought up to date, but the book apparently went to press before the passing of the Companies Act, 1928 the provisions of which are not included.

Complete Practical Income Tax. *Fourth Edition.* By A. G. McHain, C.A. London: Gee & Co. (Publishers), Limited, 6, Kirby Street, E.C. 1. (368 pp. Price 7s. 6d. net.)

There are now so many publications on the subject of Income Tax that it is difficult to say anything new. An important feature of this book, however, is the number of examples which are given showing the working out of the principles enunciated in the text. These examples are useful for removing any doubts as to the author's meaning. Among the special subjects dealt with are Allowances and Reliefs, New and Discontinued Businesses, Partnerships and Limited Companies, Depreciation, Repairs and Obsolescence, Residence, Dominion Income Tax, Super Tax and Surtax. The book is well produced and free from technicalities.

Scottish Notes.

(FROM OUR CORRESPONDENT.)

Glasgow Students' Society.

The next meeting of this Society will be held at 166, Buchanan Street, Glasgow, on Wednesday, the 5th inst., at 7.30 p.m., when an address will be given by Mr. Thomas Templeton, M.A., Ph.D., Coatbridge, on "Some Principles of Economics."

Examinations—Glasgow Centre.

The examinations at Glasgow Centre were held last month in the Athenaeum as in former years. The member of Council in charge (Mr. James Paterson) was assisted by Mr. W. Hill Jack, F.S.A.A., Mr. Wm. Houston, F.S.A.A., Mr. A. N. Campbell Smith, F.S.A.A., and Mr. J. Hawthorne Paterson, A.S.A.A.

An Edinburgh Students' Movement.

At the request of a number of members of the Society in Edinburgh, and of articled clerks and other examination candidates, a meeting was held in Edinburgh on 23rd ult. for the purpose of considering in what manner the interests of the latter could be helped, particularly as regards the examinations. There was a good attendance in the board room of the chambers of Mr. Walter MacGregor, F.S.A.A. Mr. James Paterson, Secretary of the Scottish Branch, presided, and intimated apologies for absence from Mr. J. Stewart Seggie, C.A., F.S.A.A., Mr. Walter MacGregor, F.S.A.A., Mr. James C. Cessford, C.A., F.S.A.A., Mr. J. D. Imrie, M.A., B.Com., B.L., F.S.A.A., City Chamberlain, Mr. John Stirling, B.L., B.Com., A.S.A.A., &c. After a discussion, taken part in by Mr. D. R. Mathieson,

M.A., LL.B., F.S.A.A., Mr. W. A. Scott, C.A., F.S.A.A., Mr. H. A. Bakewell, A.S.A.A., Mr. Douglas S. Chisholm, A.S.A.A., and others, it was unanimously agreed to form an Edinburgh Incorporated Accountants Students' Society (to include a study circle), and a committee of junior members and students was appointed, with Mr. Douglas S. Chisholm as Chairman, and Mr. Thomas Butchart as Hon. Secretary, to make suitable arrangements for meetings, &c.

Local Government Audits.

The Government's proposals for reforming local government in Scotland may result in a reduction in the number of professional auditors, unless, as in the case of Glasgow, various sections are separately audited by different Chartered or Incorporated Accountants. This spreading over of the work has considerable advantages, and should result in greater efficiency. In the new Local Government Bill the auditors of the new authorities, it is proposed, will be appointed by the Secretary for Scotland in the same manner as county council auditors are appointed at present under sects. 69 and 70 of the Local Government (Scotland) Act, 1889, and it is to be hoped that in making these appointments of auditors of counties and large burghs some division of the departmental work will be kept in view, and that Incorporated Accountants will not be overlooked.

Edinburgh Civil Service Club.

The premises of this recently formed club at 50, Great King Street, Edinburgh, were formally opened on November 1st before a large gathering of Civil Servants. Mr. J. Stewart Seggie, C.A., F.S.A.A., chairman of the club, in the course of his remarks, said that the origin of the club might be traced back to a period of over two years ago, when, in consequence of the (Scottish) Board of Health Recreation Club having to vacate their premises to house extra office staff, the committee of that club, with a few representatives from the Government Departments, discussed the advisability of forming a large organisation. To-day there was opened the first Civil Service Club in Great Britain.

A Parliamentary Candidate.

The Unionist Association of the Clydebank Division of Glasgow has adopted Mr. Charles Milne, M.A., LL.B., Advocate, as Conservative candidate to oppose Mr. David Kirkwood, M.P., at the next General Election. Mr. Milne was for some years one of the junior Counsel to the Scottish Office, and recently retired from that position, which left him free to re-enter politics. At a former General Election he contested one of the divisions of Edinburgh. Mr. Milne is an Examiner in Scots Law to the University of Edinburgh, and the Examiner on the same subject to the Society.

Scottish Banking Developments.

Several important developments in Scottish banking practice are being inaugurated this month. The Scottish joint stock banks start on 1st inst. a new system of deposit accounts on the lines followed by the trustee savings banks. Hitherto £1 has been the smallest sum received on deposit by the joint stock banks, and it has been lodged in the well known form of the deposit receipt. In future, sums of 1s. upwards will be taken over the counter of the joint stock banks, and the sums deposited will be entered in a depositor's pass book instead of being inscribed on the familiar deposit receipt. The deposit receipt, with a minimum lodgment of £1, will, of course, remain a feature of the Scottish banking system. Then the Glasgow and Edinburgh Savings Banks have intimated that in future the interest on deposit accounts will be calculated fortnightly instead of monthly, which is a concession to the small depositor.

Scottish Local Rating.

On 14th ult. Mr. J. D. Imrie, M.A., B.Com., F.S.A.A., City Chamberlain, Edinburgh, delivered an address to the Glasgow Chartered Accountants Students' Society, on "Scottish Local Rating—Recent and Prospective Developments." Mr. Imrie traced the development of the Scottish

rating system during the post-war period and directed attention to the innovations made by the Rating (Scotland) Act, 1926. He explained the Government's proposals in regard to de-rating in so far as these had been statutorily provided for, and pointed out that they might be dealt with in three parts:— (1) Local government reform by way of the creation of larger areas; (2) the de-rating of industrial, freight, transport, and agricultural subjects; and (3) the reform of the system of grants-in-aid made by the Imperial Exchequer to local authorities. Regarding compensation for rating relief, the local authorities, with marked unanimity, while approving of the de-rating of the industrial, &c., subjects, viewed with concern the narrowing of the basis of local rating. Local authorities wished to receive the exact amount which they lost through de-rating. This, in effect, meant divesting the pool of the bulk of its revenues, and the Secretary of State for Scotland was unwilling to accede to the demand. Some concessions were indicated, but whether these would meet the wishes of the local authorities remained to be seen.

Notes on Legal Cases.

COMPANY LAW.

In re Etic, Limited.

Summons by Liquidator against late Secretary.

Maugham (J.) held that proceedings for the repayment of moneys overdrawn by an officer of a company should not be taken by way of summons under sect. 215 of the Companies (Consolidation) Act, 1908, but by action in which set-off is available.

(Ch.; (1928) L.J.N., 281.)

In re Lewis Merthyr Consolidated Companies, Limited.

Priority of Preferential Payments.

Tomlin (J.) held that the priority given by sects. 107 and 209 of the Companies (Consolidation) Act, 1908, to certain claims against companies is in respect only of assets subject to a floating charge.

(Ch.; (1928) L.J.N., 282.)

In re Parkes Garage (Swadlincote), Limited.

Invalid Debenture.

A limited company which had become insolvent issued to a trustee, as security for some of their debts, a debenture which was to rank as a first charge and as a floating security only. Subsequently the company sold the goodwill of its business and out of the proceeds paid to the trustee the amount required to discharge the debenture. Within three months from the issue of the debenture another creditor of the company obtained a winding-up order. The liquidator then took out a summons to set aside the charge created by the debenture and to recover the money paid under it.

It was held that though under sect. 212 of the Companies (Consolidation) Act, 1908, the charge was invalid, the amount paid could not be recovered on the present summons, but it would be open to the liquidator either to apply to set aside the payment as a fraudulent preference within sect. 210 of the Act or to question the validity of the debenture on any other ground.

(Ch.; (1928) 45 T.L.R., 11.)

EXECUTORSHIP LAW AND TRUSTS.

In re Wheeler.

Devise before 1926, Death after 1925.

Tomlin (J.) held that the estate duty payable in respect of an undivided share of land devised by will made before 1926 of a testator who died after 1925, is repayable by the devisee to

the executors, but he is entitled to repay it by instalments as duty on realty.

(Ch.; (1928) L.J.N., 281.)

INSOLVENCY.

In re A Debtor.

Judgment for Rent.

A landlord obtained judgment against his tenant for £204 in respect of rent and fire insurance and served on him a bankruptcy notice. The notice was not complied with, and a petition for a receiving order was presented. While the petition was pending, the landlord, as the premises were sublet, served on the subtenants a notice under sect. 6 of the Law of Distress Amendment Act, 1908, to pay their rents directly to him, and from one subtenant he received £62, the debt being thus reduced by that amount. A receiving order was afterwards made.

It was held that as the claim still amounted to more than £50 the landlord had not, by exercising his powers under the Act of 1908, precluded himself from proceeding under the bankruptcy notice in the normal way.

(C.A.; (1928) 45 T.L.R., 10.)

REVENUE.

Eastman's Limited v. Shaw.

Trading Profits of Multiple Shops.

A trading company with a number of branch shops controlled by a head office followed a policy of opening and closing their branches in accordance with the local demands and the probabilities of profit or loss.

The House of Lords, in affirming the decision of the Court of Appeal (see *Incorporated Accountants' Journal*, January, p. 146), held that the difference between the cost of new fixtures, fittings, and utensils for the new shops, and the receipts from the sales of equivalent second-hand fixtures, &c., from the shops that were closed, was a capital expenditure, and was not a revenue expenditure which could be debited to the trading account of the company in ascertaining the profits which were assessable to income tax and corporation profits tax.

(H.L.; (1928) 45 T.L.R., 12.)

Morley v. Lawford.

Profits of Trade.

The appellants subscribed to the guarantee fund of the Wembley Exhibition, solely, as the General Commissioners found, in the hope of obtaining preferential treatment in the allocation of contracts for asphaltting work within the Exhibition grounds. They did not in fact obtain any contract at all from the Exhibition authorities. Having been called upon to pay a considerable part of the amount guaranteed, they sought to deduct the sum so paid from their profits assessable to income tax as a trade expense. The General Commissioners held that it was an allowable deduction.

The Court of Appeal reversed the decision of Rowlatt (J.) (see *Incorporated Accountants' Journal*, May, p. 420), and held that the question was one of fact, and, as there was evidence to support the finding of the General Commissioners, their decision must be affirmed.

(C.A.; (1928) 45 T.L.R., 30.)

Mills v. Jones.

Income Tax on Award by Royal Commission to Inventors.

The Court of Appeal affirmed the decision of Rowlatt (J.) (see *Incorporated Accountants' Journal*, May, p. 292), and held that income tax was payable on certain sums awarded by the Royal Commission on Awards to Inventors, it appearing that the sums in question were not a capital payment made for the Crown's acquisition of a patented invention, but were sums paid for the use thereof.

(C.A.; (1928) 45 T.L.R., 31.)

Northwestern University

The Joseph Schaffner

Library of Commerce